



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

Reference: A new tax system

FRIDAY, 5 MARCH 1999

SYDNEY

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SENATE
SELECT COMMITTEE ON A NEW TAX SYSTEM

Friday, 5 March 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 Ferguson, Gibson or O'Chee; Senators George Campbell, Mackay or Murphy for Senators Cook, Conroy or Sherry; Senator Bartlett for Senator Murray

Participating members: Senators Brown, Colston, Harradine and Margetts

Senators in attendance: Senators Bartlett, Conroy, Cook, Ferguson, Gibson and O'Chee

Terms of reference for the inquiry:

- (1) That a select committee, to be known as the Select Committee on a New Tax System, be established to inquire into and report, on or before 18 February 1999, on the economic theories, assumptions, calculations, projections, estimates and modelling which underpinned the Government's proposals for taxation reform, contained in *Tax reform: not a new tax, a new tax system*.
- (2) That, in conducting its inquiry, the committee examine the following matters:
 - (a) the estimated levels of revenue to be generated or foregone due to the proposed changes, including the estimated level of revenue to be generated by imposing a goods and services tax (GST) on the basic necessities of life (such as food, clothing, shelter and essential services) and books;
 - (b) the effects of the proposed changes on:
 - (i) national Gross Domestic Product,
 - (ii) national export performance and national debt,
 - (iii) the national Consumer Price Index, and
 - (iv) the distribution of wealth in the Australian community;
 - (c) the effects of the package on future federal budget revenues, expenditures and surpluses, including a critical assessment of the economic assumptions underpinning the Treasury's projections in this regard;
 - (d) the effects of the taxation and compensation package on disposable income and household spending power for a range of 'cameo profiles', including but not limited to those presented in the proposals, under the following scenarios:
 - (i) a GST extended to the necessities of life (such as food, clothing, shelter and essential services), and
 - (ii) a GST not extended to the necessities of life (such as food, clothing, shelter and essential services);

- (e) with the aim of identifying families and groups who may be disadvantaged by the Government's proposals, focusing on lower and fixed income individuals, families with dependent children or adult members, groups and organisations, and those with special needs, such as people with disabilities;
 - (f) the assumptions made as to consumption and saving patterns and the cost of living for the various 'cameo profiles';
 - (g) whether the stated objectives of the package can be met by using an alternative and fairer approach; and
 - (h) such other matters as the committee considers fall within the scope of this inquiry.
- (3) That the committee also inquire into and report, on or before 19 April 1999, on the broad economic effects of the Government's taxation reform legislation proposals with regard to the fairness of the tax system, the living standards of Australian households (especially those on low incomes), the efficiency of the economy, and future public revenues, including:
- (a) the effects on equity, efficiency and compliance costs of including, or not including, food or other necessities of life in the GST, together with any related adjustments to the package if food or other necessities of life were GST zero-rated;
 - (b) the effectiveness of the package in easing the poverty traps facing people on low incomes, and reforming and streamlining tax and income support for families with children, taking into account the static and life-cycle impacts on families with children;
 - (c) options for amending the income tax schedule to make it more equitable;
 - (d) the findings of the Tax Consultative Committee chaired by David Vos;
 - (e) options for improving the effectiveness and fairness of the tax system and reducing inequitable or unreasonable tax avoidance and minimisation, including consideration of alternative areas for tax generation, either where there are current tax concessions or where Australia's taxation system does not address major tax potential, and without limiting the foregoing, the consideration of taxation of foreign companies operating in Australia, including the relative merits of resource rent taxes, royalties or land taxes as compared to company tax in securing a fair compensation to Australia for use of its resources, whether the 150% tax concession for research and development should be restored and whether small companies should be allowed to be taxed as partnerships.
 - (f) the potential for tax avoidance and evasion, including an examination of the effects on the cash economy, and the potential impact of electronic commerce on the future viability of a GST;
 - (g) the effects on compliance costs;
 - (h) the potential for reducing payroll tax, including by providing incentives to create long-term employment and by replacing payroll tax with a carbon tax;
 - (i) whether there are other means available for rebating or reducing the indirect taxes or excessive user charges embedded in exporters costs;

- (j) excises, including those on fuel, tobacco and alcohol - identifying the industries which benefit, and to what extent, from the proposed changes to taxes on fuels;
- (k) the effects on interest rates;
- (l) the effects on investment, in both physical and human capital formation;
- (m) the effects on small business;
- (n) the effects on the non-profit sector, including the total amounts of money contributed by the sector, administrative costs, impacts on the viability of the organisations, and the consequent effects on the wellbeing of the community;
- (o) the effects of the GST on particular industries, including:
 - (i) key service industries such as tourism,
 - (ii) the Australian automobile and related industries, having particular regard to the effects of changes to fuel excises,
 - (iii) other 'invisible' export industries, such as education and financial services, and
 - (iv) the international competitiveness generally of Australian industries;
- (p) the implications of not requiring that the GST component of goods and services be itemised on receipts;
- (q) the effects of the taxation reform legislation proposals on rural and regional stakeholders, including:
 - (i) the effects on particular regions,
 - (ii) the effects on rural and regional communities of different tax regimes on fuel - especially the cost of transport of goods to rural communities,
 - (iii) the effects on primary industry of replacing the current sales tax exemption on agricultural machinery with a GST, and
 - (iv) the effects of imposing a GST on food and other necessities of life on remote communities, including Aboriginal and Islander communities;
- (r) the effects of the Government's taxation reform legislation proposals on state and local government administration, including:
 - (i) the effects of the package on future federal-state financial relations and the capacities of state and local governments to adequately finance their respective responsibilities in both the short-term and the long-term, including the effects of the proposed transfer of responsibility for local government financial assistance to the states, and whether it discriminates between states,
 - (ii) the implications for specific purpose programs,
 - (iii) mechanisms required to lock in commitments made by federal and state governments with regard to the new arrangements,
 - (iv) the implications for future federal-state financial relations of not extending the GST to the necessities of life (such as food, clothing, shelter and essential services) and books, and any adjustments to the proposed arrangements which would be required to federal-state financial relations,
 - (v) the implications of the package for the quality and affordability of public utility services and for the public utility concessions for social security recipients,

- (vi) the effects of application of the GST, and of changes to tax status, on local government and its activities, particularly commercial activities,
 - (vii) the implications for the delivery of Commonwealth Government services, including employment services, welfare and other social and cultural services, and
 - (viii) the extent to which the proposed compensation arrangements are secure from change to below adequate levels;
- (s) the adequacy of measures to ensure that consumers fully benefit from the abolition of existing taxes;
- (t) the effects of the taxation reform legislation proposals on legal and constitutional matters, including:
- (i) the constitutionality of the proposed mechanism for future changes to the GST, including whether such changes would present a significant hurdle to future increases, or reductions if deemed necessary to stimulate the economy,
 - (ii) the constitutionality of the proposed reorganisation of federal-state tax arrangements and whether the powers and functions of states and territories are materially affected by this reorganisation, and
 - (iii) the effects of the proposals on the cost of access to justice; and
- (u) options for amending the proposed legislation to improve its fairness or efficiency.
- (4) That, in reporting on the matters referred to in paragraph (3), the committee have regard to the reports of the references committees referred to in paragraph (17) and integrate the findings of those committees into its final report where relevant.
- (5) That the committee consist of 7 senators, 3 nominated by the Leader of the Government in the Senate, 3 nominated by the Leader of the Opposition in the Senate, and 1 nominated by the Leader of the Australian Democrats.
- (6) That the committee may proceed to the dispatch of business notwithstanding that not all members have been duly nominated and appointed and notwithstanding any vacancy.
- (7) That:
- (a) senators may be appointed to the committee as substitutes for members of the committee in respect of particular matters before the committee;
 - (b) on the nominations of the Greens or independent senators, participating members may be appointed to the committee; and
 - (c) participating members may participate in hearings of evidence and deliberations of the committee, and have all the rights of members of the committee, but may not vote on any questions before the committee.
- (8) That the committee shall elect as its chair a member nominated by the Leader of the Opposition in the Senate.
- (9) That the committee shall elect as its deputy chair, immediately after the election of the chair, a member nominated by the Leader of the Government in the Senate.

- (10) That the deputy chair act as chair when there is no chair or the chair is not present at a meeting.
- (11) That the committee have power to send for and examine persons and documents, to move from place to place, to sit in public or in private, notwithstanding any prorogation of the Parliament or dissolution of the House of Representatives, and have leave to report from time to time its proceedings and the evidence taken and such interim recommendations as it may deem fit.
- (12) The quorum of the committee shall be a majority of the members of the committee.
- (13) The committee set 29 January 1999 as the date for receipt of submissions.
- (14) That the committee hold hearings in each state and territory as required.
- (15) That the committee be provided with all necessary staff, facilities and resources and be empowered to appoint persons with specialist knowledge for the purposes of the committee with the approval of the President.
- (16) That the committee be empowered to print from day to day such documents and evidence as may be ordered by it and a daily Hansard be published of such proceedings as take place in public.
- (17) That the following matters be referred to references committees in accordance with the schedule below for inquiry and report by 31 March 1999, and that in undertaking these inquiries the committees have regard to the report of the Select Committee referred to in paragraph (1) and consult widely, holding hearings in each state and territory, as required. Submissions to these inquiries are to be made by 29 January 1999.

Committee	Matters for Inquiry
Community Affairs	<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> <ul style="list-style-type: none"> (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; (b) a detailed examination of the zero-rating of health services, including an examination of which services should be zero-rated; (c) the effects on community sector organisations of changes to their tax exempt status, and of the compliance costs of the proposed tax arrangements;

	<ul style="list-style-type: none"> (d) the effects of the proposed private health insurance rebate; (e) the effects on people with disabilities; (f) the effects on public, community and private housing, including the levels of rents; and (g) options for amendments to improve the fairness or efficiency of the proposed legislation.
<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"> (a) the scope and effectiveness of the proposed zero-rating arrangements for education in maintaining its quality, accessibility and affordability; (b) the effects on employment; (c) the effects of the proposed GST treatment on the quality, accessibility and affordability of employment services; (d) the effects on education of imposing a GST on, or zero-rating or exempting books and associated education resources; (e) the effects on education of imposing a GST on ancillary resources, services and commercial activities, including the effects on overseas students; (f) the effects of the proposed changes to the tax system on employment; (g) the effects on wage costs, particularly if the basic necessities of life are taxed; (h) the scope and effectiveness of changing the unemployment benefits, pensions and Newstart Allowance 'tapers'; (i) the effects of the proposed changes to the tax system on training and adult education; and (j) options for amendments to improve the fairness or efficiency of the proposed legislation.
<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

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TAFFT, Mr Mark, National Director, GST Services, Ernst and Young on behalf of Avis, Hertz and Thrifty	1711
VILGAN, Ms Rosemary Anne, Federal President, Association of Superannuation Funds of Australia	1729
WAINWRIGHT, Mr Raoul David, National Legal/Research Officer, Construction, Forestry, Mining and Energy Union	1690
WICKERT, Dr Rosemary Ann, Vice-President, Australian Council for Adult Literacy	1668
WILLIAMSON, Mr Graeme Bruce, Operations Controller Australia, Avis Australia	1711

Committee met at 9.00 a.m.

CHAIR—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 1998. 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 legislation proposals. It will have 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. The committee will report on the second stage of its inquiry by 19 April this year.

This committee called for submissions to be lodged by 29 January 1999. In fact, the committee is still accepting submissions and so far has received well over 1,300. This is the fourth public hearing to be held by the committee in Sydney 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 are giving evidence today. Is it the wish of the committee that submission Nos 705, 905, 466, 1,037, 567, excluding Attachment A to this submission, 1,089, 685, 716, 739, 624 and 558 be made public? There being no objection, I declare that those submissions to this inquiry together with their attachments be released.

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

I have been kindly handed a document headed 'Order of Appearance' which informs me in bold type that you all speak with an equal voice—that is, there is no industry leader as such—but that the speaking order will be the Australian Booksellers Association followed by the Australian Society of Authors followed then by the Australian Publishers Association, with the Printing Industries Association of Australia bringing up the rear. Unless there are any objections, I propose to proceed with that course.

[9.04 a.m.]

DALMAU, Miss Mary Josephine, President, Australian Booksellers Association

WICKERT, Dr Rosemary Ann, Vice-President, Australian Council for Adult Literacy

BRYSON, Ms Fran, Independent Witness Supporting the Australian Society of Authors

GLEESON, Ms Libby, Deputy Chair, Australian Society of Authors

DONOUGHUE, Mr Peter Charles, Immediate Past President, Australian Publishers Association

GRANT, Mr Alexander Beresford, President, Australian Publishers Association

ANDERSEN, Mr Philip Duncan, National Director, Printing Industries Association of Australia

FISHER, Mr Ronald Claude, Economic and Trade Consultant, Printing Industries Association of Australia

MURPHY, Mr Christopher William, Consultant, Econtech, Printing Industries Association of Australia

CHAIR—Mr Murphy is familiar with us. Welcome back, Mr Murphy, for your third appearance before the committee. The format is to invite you to make a short statement and at the conclusion of those statements to make yourself available for questioning from the committee. I now call the Australian Booksellers Association.

Ms Gleeson—Excuse me, Senator, I understand that I am able to make a correction to our submission prior to the statements. Is that correct?

CHAIR—Yes, you may, of course.

Ms Gleeson—In the Australian Society of Authors' submission, we have made an error in saying that the mean income from the creative work for writers is \$2,000. It is in fact the median income. The difference is that a mean income would mean the total income divided by the number of people counted, whereas the median is somewhere in the middle, meaning that half of the Australian authors earned less than \$2,000 from their creative work.

CHAIR—That is also a mean income, I would have thought, but in a quite different meaning.

Ms Gleeson—I am rather glad it was you who said it. That is page 11 of our submission, and also in our covering letter to you.

Senator FERGUSON—Somebody should have told Mr Tanner and Mr Latham before they put all that effort in.

Ms Gleeson—Like all Australian authors, they have other income.

Senator CONROY—You did not have to worry about your side.

CHAIR—I hope members of the committee have got their jests off their chests so that we can now concentrate on the witnesses. Are there any other corrections? Does anyone else need to make a correction? If not, I now call the Australian Booksellers Association.

Miss Dalmau—I appear before you today grateful for the opportunity to do so and mindful of the responsibility facing every single person involved at any level in the issue of tax reform for our country. As President of the Australian Booksellers Association, I have a personal obligation to represent the membership of our organisation and give them a voice to you today, while also remaining true to the all-pervading focus of the association to represent and nurture the role of books in all our lives.

The membership of our association is worthy of a few moments' reflection. It numbers in excess of 500 book selling businesses, as well as individual members. Our membership is eclectic in character and it is definitely reflective of the audience for books and reading—any person of any age, and any cultural background, and any socioeconomic standing.

Therein lies a pivotal concern should there be a tax imposed on books. Knowledge and learning should be, in a democratic and arguably rich nation, open to all. There must be no barrier to learning and literacy. There must be a nurturing of our cultural identity and our ability to know and express ourselves.

To impose any tax on books would be to jeopardise this crucial learning device and cultural barometer. To suggest, should you do so, that my presence here today is purely and simply on a commercial basis would be entirely incorrect. Just as our association membership profile is unique, so too are the reasons for people such as myself entering the book trade.

To be a bookseller demands that the individual think not of a product but of the book in its purest form. Yes, I need to run a commercially viable business and, in that context, the ramifications of a tax on books is seriously worrying. But I am also fundamentally interested in books, reading, writing and readers. It is, therefore, perfectly reasonable for me to display our concern on several levels—commercially, culturally and as part of the education context.

The ABA has, amongst others, two key charters—to foster and encourage the selling of books and to enhance the unique role of books of in our society. To undertake both of these means we must oppose a tax on books. Our members are currently facing many challenges from new forms of commerce and the disappearance of territorial boundaries. Given the fact that books purchased over the Internet shall not attract a tax, it is easy to surmise that a tax on books through the traditional bookshop in this country would hamper our ability to be competitive.

Another ramification of a tax on books in a commercial sense is that the price of books shall rise while other items that have in the past attracted a tax shall fall. Again, this puts the

bookseller at a commercial disadvantage when attempting to affect the discretionary spend on the part of the individual and the community.

The unique role of books in our society as expressed in our statement of purpose pertains to the cultural and educational characteristics of the book. The government and the Prime Minister have been clear in their concern and dedication to the improvement of literacy standards for all Australians. The social, employment and economic arguments for concentrating on literacy and the attainment of education have been eloquently put by the government. It is, therefore, disappointing that the correlation between these ideals and the negative effects of a tax on books has not been identified.

A tax on knowledge must be seen as abhorrent to a country determined to maintain and expand its place in the world. We applaud education and understand the vital role education plays, and thus we must ensure the primary way in which we educate ourselves—reading—is made and maintained accessible to all.

The salient point to add to this debate is that the very nature of education must be defined. So, too, the fundamental tool of educational—books—must be understood in the context of the depth to which they touch every sector of the community. As the saying goes, you are never too old to learn and, equally, you are never too young. Books are relevant to all people at all stages of their lives. I am sure every person here today could identify a member of their family who is currently reading a book, be it for pleasure, business or education.

It is also important to complete the circle of knowledge by remembering that the existence of a robust and nurtured book industry will add to the sense of our place in the world and our own identity as we educate ourselves about who we are and from whence we came. It is the acknowledgment of the universal value of knowledge in book form, when aligned with the opportunity before the government to use tax reform to, in fact, encourage the perception that books are affordable that will significantly add to the literacy goals expressed. Because there has not been a tax on knowledge and books in the past, the effect of having a GST-free book industry within a GST active economy would be to genuinely make books competitive and a real choice for people.

I come to you today, and in our submission, as someone representing a broad sector of the community who understands the importance of tax reform and who, in this context, has no political agenda in the party sense but who is absolutely clear on the educational, social and cultural benefits of protecting knowledge and learning, and who, therefore, must oppose a tax on books. I thank you for your time.

CHAIR—Thank you very much. The Australian Society of Authors.

Ms Gleeson—It is my pleasure to speak to you today on behalf of the Australian Society of Authors. Our 3,000 members are scattered across all states and territories and include writers in all genres. Contrary to popular perception, we represent an enormous diversity of political and social viewpoint. We write for children and adults—stories, poems, plays and essays. We write to make you laugh and to make you cry, to entertain, to educate about the world and about ourselves. We are the nurturers and the recorders of Australian culture. Not

only are your children taught to read from us, not only are we read for our sake, but our words often begin the television, the film and the opera—those other art forms that can grow from our ideas. Much of what you know about life, about history, about our achievements in science, technology, even in sport, has come from the pens, and increasingly, the keyboards of our members.

Last week, as the local writer and a mother, I launched the home reading program in my local primary school, a program that attempts to get every child taking home every night a book. No champagne—just a speech about the value of books and reading. Like all schools, this one values literacy and knows that the secret of teaching literacy is getting little children hooked on books and reading and all other texts at the earliest possible stage. Eighty-five per cent of the parents of this school are from non-English speaking backgrounds—new arrivals in this country—and their passion for getting their children reading was palpable. They believe that the way out of economic and social disadvantage that their children are currently in is education; the way into the Australian work force is education; the way into Australian culture is education, and the way into education is the book. Whole community literacy is a vital need. It is the only way we can compete in the global economy and the only way we can continue as a coherent nation.

There is a strong correlation between the level of educational attainment in children and the number of books in the home. If the price of books goes up, there will be a corresponding decrease in sales. Though the whole nation is the poorer, the disadvantaged and the young are the most hard hit. There are issues of equity and of fairness here.

Books are not a simple cultural artefact. Books and reading are fundamental to life, inextricably linked with learning, both formal and informal. Educational institutions, GST-free, are not the only places where learning takes place. Books are the way we communicate with each other, the way we share our ideas, the way we learn who we have been, who we are and who we might become. They are the primary medium for our unique culture. They express and enhance a unique cultural identity—the laconic traditional kids' books by Paul Jennings, Nick Earls' novels, non-fiction work exploring our landscape such as that of Tim Flannery, or anything at all by Tom Keneally.

Australian writers earn a median income of \$2,000 a year from their creative work. Why on earth do we do it? We do it because we believe passionately in creativity. For some, the need to create a story; for others, the need to explore ideas. You cannot live a life obsessed only with bottom lines and economic forces. The drive for artistic and cultural expression must be answered too.

Most Australian writers have other jobs. Globalisation of the book industry means a smaller print run and shorter shelf life for books. Our work is labour intensive and there are few areas where input costs could offset a GST. Many writers will be driven from the industry. Many books that would have been written and published, purchased and read, will not be. Not only will the writer be the poorer but so too will the reader—that person not specifically represented here but who, in a way, we all represent.

In a moment you will hear from our colleagues in the publishing industry and in the printing industry presenting arguments that support the call for maintaining books GST free.

As well, Fran will present some of her postgraduate research on the international experience of imposing a tax on books. By keeping books GST free, a strong message would be sent to the community that literacy and learning are valued, knowledge is valued and support is given to our unique Australian culture. Thank you sincerely for the opportunity to appear before you.

CHAIR—Thank you. The Australian Publishers Association.

Mr Grant—The APA opposes the imposition of a GST on books and notes that books have never been subject to any form of taxation in Australia. They are free of tariffs, duties and import quotas. Of the 19 major industrial nations, 17 either have no tax or have a reduced tax level on books. A similar principle is entrenched in international law by the Florence agreement and the Nairobi protocol. Australia should continue to maintain its position with those industrial nations by applying a GST free status to books.

To summarise the APA submission, which you all have, the imposition of a GST will increase book prices. The PRISMOD model, which we have used in our submission for simplicity, assumes that a four per cent increase in books will follow. Our own estimates, based on an analysis of business costs and international experience, suggest that price increases are more likely to be seven to eight per cent.

Price elasticity for books implies that, for every percentage point increase in price, the demand for books will decline by one per cent. If post GST prices increase by seven per cent, it can be predicted that demand will fall by seven per cent. That situation will be exaggerated, as Libby mentioned, by a relative decline in the prices of substitute goods such as music, CDs, computer games and videotapes that are all currently subject to a 22 per cent wholesale sales tax.

Additionally, there are some anomalies. The government and the Vos report recognise the essential role of books in education, but the proposed tax will apply to all student and parent purchases of books. Sixty nine per cent of books purchased for educational purposes are purchased by parents or students and will be subject to tax. This particular anomaly will distort buying patterns, encouraging institutions rather than students to acquire books and undermining the viability of curriculum based publishing in Australia.

The government, in introducing this tax, accepts that some structural unemployment and changes in investment will result from the introduction of a GST. It is beyond question that the book industry is one industry that will suffer. The drop in demand will result in a drop in investment. That is an investment in literacy; it is an investment in knowledge; and it is an investment in education. Thank you.

CHAIR—Thank you. And the Printing Industries Association.

Mr Andersen—The Printing Industries Association of Australia is the peak representative organisation for companies in the printing and allied industries. On behalf of its membership, we welcome the opportunity to appear and comment on the government's tax reform proposals.

Having had a long and enduring experience with the wholesale sales tax system, the Printing Industries Association fully endorses the need for taxation reform in general and especially reform of our indirect tax system. The association supports the introduction of a goods and services tax and believes that, in most instances, the GST is a superior tax to the wholesale sales tax that it will be replacing.

The association also acknowledges that, for reasons of economic efficiency, the GST rate should be uniform and the coverage as wide as possible. But, just as the government has recognised the need for exceptions by making certain activities GST free—such as exports, health care and education—Printing Industries believe that certain items and printed matter should also be made GST free.

We remain opposed to a tax on knowledge. This brings us to the product categories of books, magazines, periodicals and newspapers. Education is zero rated but not books. We need to make education truly GST free by making books GST free.

Economic modelling work commissioned by Printing Industries and conducted by Chris Murphy of Econtech clearly shows that the printing industry will be better off economically if items imparting knowledge, such as books, magazines and newspapers, are made GST free. And, indeed, through the dramatic improvements in the CPI the economy at large is better off.

Based on the findings of the modelling work in areas such as books, magazines and newspapers that are currently not subject to sales tax, consumer prices rise and production falls if the government's proposals are implemented without any modifications. However, if knowledge based materials such as books are made GST free the economic modelling shows that consumer prices fall instead of rise and production increases instead of declines. Based on the modelling results, the government's tax reform package without any modifications would increase printing output by two per cent. However, if books are made GST free, tax reform would then have the potential of increasing overall printing activity by 2½ per cent. If magazines and newspapers are also made GST free, the output gain increases to 3.4 per cent.

If books are made GST free, the modelling also shows that total printing production will be \$41 million higher. If books, magazines and newspapers are made GST free, total printing production will be \$115 million higher. Employment gains if books are made GST free will equate to around 410 new positions. If newspapers and magazines are also GST free, the number rises to 1,150 new jobs.

Given that under the current sales tax legislation certain items and printed matter such as books, magazines and newspapers are sales tax free, printing industries would like the same treatment under the proposed GST system. A failure to make knowledge based printed matter GST free has the potential to undermine by up to 70 per cent the potential economic gains flowing to the printing industry from tax reform. Certain sectors of the printing industry which are engaged in the production of knowledge based material will fail to realise the benefits of taxation reform if the current tax free status that they are afforded is not extended or made available under the proposed GST system. The government's tax reform proposals will make substitute goods such as audio cassettes, videotapes and CDs cheaper,

resulting possibly in a shift in demand from books and knowledge based printed matter to the cheaper substitutes.

The federal government's determination to levy GST on all printed matter does not compare favourably with international experience. Both the UK and USA have zero rates for books. The UK also exempts newspapers, journals and periodicals, printed music, maps and charts. The justification for the zero rating is to avoid a tax on reading. In Ireland, printed matter such as books are also zero rated. Other items of printed matter are taxed at a concessional rate.

Books purchased online will not attract a GST. The potential exists for an increase in online book purchases, the bulk of which are likely to be printed offshore. A GST on books will also cause distortions in purchasing decisions: schools versus individuals and purchasing from stores versus online purchasing.

Finally, on the issue of waste paper collections and recycling, the imposition of a GST on waste paper collections and processing is likely to exacerbate the current problems being experienced, with the viability of paper recycling further reduced and the price to the final consumer of products made from recycled paper further increased. We are now in the position of having book printers facing negative assistance for some 15 months. A GST will only exacerbate this problem. We also now face the prospect of further harm to the industry through the ACCC inquiry into the 30-day rule and copyright rule. Thank you.

CHAIR—Thank you. My note says that Dr Rosie Wickert has to leave here by 9.30 a.m. Dr Wickert, are there any comments you would like to make to the committee before you have to depart?

Dr Wickert—Yes, thank you. I would like the opportunity to support the claims that the various speakers have made by research evidence from the work that I and others have done over the past 10 to 15 years or so. I think the evidence of most relevance is that, when you are trying to identify the factors that are most related to reading success as an adult, they are things like the number and the variety of reading materials in the home during childhood. That has a strong correlation with adult literacy competence.

The actual continuing use of literacy skills—there is a lot of evidence that people who find reading difficult do not continue to read. There is evidence that there is attrition of literacy skills if people do not continue reading. Therefore, I think we need to do as much as possible to ensure that people get access to reading material without it being out of their price range.

Another important point that has been made is the emphasis that is being placed on the relationship between the home and the school. There are a number of initiatives to try to encourage programs that are community based and that encourage parents to read with their children at home. Again, of course, these parents will be affected by GST on books and other reading materials for it is not just books that we are talking about here.

If somebody is having a problem reading, the important thing is to get that person to read anything, in other words, maintaining the use of those particular skills and developing

them. For people who do not like reading very much, what they read is what they are interested in, and very often it is a thing like the sports page in the newspaper or the gambling section—a lot of people like to have a little go with the horses and that kind of thing—and that is an important way of continuing to use their reading skills.

The last point I would like to make in support of the submissions, and again from our evidence and my experience in adult literacy programs, is that adults who are trying to maintain and develop their literacy skills do not necessarily do that within an educational institution. There has been a long history in Australia of a voluntary adult literacy program where people prefer to learn in their homes or in the tutor's home or in a community setting. Here again they are going to have to be purchasing the materials themselves. Also, there is a strong community base to literacy programs which is not necessarily strongly associated with formal educational institutions.

So I think we need to recognise that when we are talking particularly about adult literacy we have to have a variety and diversity of provision that recognises that people tackle this problem in multiple ways. We also have to recognise, as I said in my initial point, the very important evidence that the reading material in the home when one is a child is related to literacy skill as an adult. Thank you.

CHAIR—Thank you. Ms Bryson, do you have any remarks to add to what has been put?

Ms Bryson—No, not really, Senator. As the questions come along I will use my evidence then.

CHAIR—All right, we will turn to questions. Firstly, Mr Andersen, you used the magic words 'tax reform', and as far as I am concerned we are looking at a series of tax changes. It is not a pedant's point to make the observation that whether those changes represent reform, which is the name the government gives to them, is a matter of judgment rather than a proper title for what they are. I, for one, do not assume that they are a reform, otherwise we would not have an inquiry into whether this is a beneficial change.

However you did say that your organisation supported the package, as I understood you, but that you want to make some changes to it to protect the printing industry. Have you put the changes that you wish to make to the government, and if so, what has the government said?

Mr Andersen—We have not put those suggested changes formally. We have been involved in consultations through a variety of other employer associations and we have been making comments through those other associations, such as the Australian Chamber of Commerce and Industry, and then through the other mechanisms of that body, such as the Small Business Consultative Committee.

CHAIR—Have they represented your changes and sought the government to amend its bills in order to reflect your needs?

Mr Andersen—I believe those points have been put forward. I am not sure of the precise responses to the way those representations have been made.

CHAIR—The reason I ask this is a practical reason. We have got 16 bills that we have to consider, all of which constitute the package of tax changes, and as a house of review, it is for us to look at the issues that are in contention. You raise a series of issues and if the government is not going to respond to those issues then, I guess, your evidence is quite pertinent to our consideration. But if the government is going to respond and make changes it removes from the arena of the Senate a need to consider your issues. We have to report by the 19th. It would suit us, I think, if we could know by the 10th at least whether or not your requests have been acceded to and whether the government intends to amend its legislation.

Senator FERGUSON—Did Mr Andersen say that they had approached the government for change? I thought he said that they had not.

CHAIR—I thought he said that they had through the industries association, the ACCI, and through some other organisation. I thought that is what he had said.

Mr Andersen—That is correct. Through our involvement with ACCI we have made these points, and through the Small Business Consultative Committee that has had ongoing discussions with the government. I think we would like to come back to your committee with some sort of response by the 10th directly in relation to that issue. This inquiry was announced in November last year and we took a decision within our own organisation that this was perhaps a more effective means of getting our point of view across to the government.

CHAIR—Yes, but I should make the point that we represent the Senate—we are not the government—and the government presents the legislation to us. We decide how we vote according to our judgment of the legislation and, in order to confine this matter, if the government were prepared to make changes then it removes the issue of debate in the Senate or confines it down to the other issues that might be in contention.

The other question that arises from what you have put to me is that the Treasurer has said forcefully several times, and he is entitled to be believed, that he does not intend to change his legislation, and that is that. If your entreaties to the government fail and the legislation remains before us unchanged, does the support you have offered the package today remain or would you be asking the Senate to vote against the package because it is unfair to your industry?

Mr Andersen—I do not know that our association really has determined whether we would vote against the entire package. My initial reaction would be that we would continue fighting for exemption for books, newspapers and magazines because they do represent a significant proportion of our industry. I would really have to come back to you again, Senator, on that particular question.,

CHAIR—It is an important point for us because the date of 19 April is coming at us like an express train down the track. It will be with us very quickly and we will have to put our hands up on one side or the other. If the government's determination is not to change and, therefore, you do not succeed in making the amendments, you will be agreeing with the government that they can enact legislation which is detrimental to your industry, based on your submission to us today. It is important for us to know whether it is sufficiently

detrimental for you to persist in asking us in the Senate to make the change or whether you acquiesce in the government's final decision.

The other point is that you said that this package is positive for the economy. That is not an established fact. That is based on a particular model which makes assumptions that do not cover the whole thing, and it is a contentious proposition. Have you looked at the other models that have modelled this package?

Mr Andersen—We have looked obviously at the work that is available from PRISMOD, such as has been made publicly available, but we have concentrated in our analysis on the work that has been provided for us by Chris Murphy from Econtech.

CHAIR—I think the PRISMOD model is a Treasury model. Econtech has MM303 and MM2, two particular models, but the MM303 is the appropriate one in this case and some figures have been given to us by Mr Murphy about that. We have commissioned independent modelling by Monash University. It has not found the conclusion that you have put to us. I wonder if the association would care to examine the independent modelling that we have commissioned and see whether they still hold the view, given all the assumptions that are made plain, that it is a net positive to the economy. That might go to the other question about whether the package has merit in your eyes or not.

Mr Andersen—Very much, Senator. We would very much appreciate the opportunity of examining that material.

CHAIR—Thank you. Senator Ferguson.

Senator FERGUSON—Thank you, Mr Chair. The Chairman, with every witness that has come forward, has asked the question, 'If you do not get the changes that you want from this package would you still support it?'

CHAIR—I have not actually—some witnesses—

Senator FERGUSON—He has put to those who do support the package the question, 'If you do not get the changes you want will you still support the package? We need to know that prior to determining how we are going to vote in the Senate.' In fact, I think that if he is going to ask people that question, I need to remind you that the Labor Party has determined how they are going to vote in the Senate because they are going to oppose the package. I think we—

CHAIR—I need to remind you that the government said it will not change the package unless—

Senator FERGUSON—Correct. You have already said that so I think it is fair that we put both positions on the table: the Labor Party oppose the package in total; we support the package. Mr Andersen, why did you choose Mr Murphy of Econtech to do your modelling?

Mr Andersen—I think we looked around at the various modellers that are in Australia at the moment. Chris Murphy and Econtech had a very high reputation and we were aware that

Econtech was also being used by Treasury in some instances and that there was a credibility that government through Treasury attached to the work that Chris Murphy has been doing.

Senator FERGUSON—Mr Grant used a figure of an increase of seven per cent or eight per cent in the cost of books. Mr Murphy, in his modelling, says five per cent. Which of those figures do you think is the most accurate?

Mr Fisher—Quite simply, we are going along with the modelling we have commissioned and we sit on the five per cent figure.

Senator FERGUSON—In the Australian Booksellers Association submission to us I think you assume that book prices increase by ten per cent. Is there any reason that you choose that figure?

Miss Dalmau—Yes. I would refer to Fran Bryson who can identify that answer specifically for you.

Ms Bryson—Senator, there was an independent analysis done on price elasticity. It is a UK study but covering data from the UK, the US, Ireland and France in varying periods but some running as long as from 1967 to 1992 on this particular question of book price elasticity. That was from the Cranfield School of Management and it showed that there was a price elasticity in books of minus one, which means that the overall amount of money that a person will allocate to buying books will stay the same regardless of whether the price increases or decreases.

There is also evidence from other countries that that is the case, and, in fact, that the sales may well fall more than one per cent. Canada did a study before their GST came in where they predicted a price elasticity figure in books of between one and 2½. When their GST came in there was an average 20 per cent drop.

In Finland, which reduced the tax on books from 22 per cent to 12 per cent in 1994, sales rose in the subsequent three years by 7.1 per cent, 5.5 per cent and then 8.5 per cent respectively. So the ten per cent sales drop figures are modelled on the price elasticity data from the Cranfield School of Management and they are also supported by a very large mass of overseas evidence.

Senator FERGUSON—I may stand corrected here because I am not absolutely sure of the facts. You quoted Canada and the drop in the sales of Canada—and I do understand that in Canada the introduction of the GST was not accompanied by a compensation package or tax cuts at the same time.

Ms Bryson—I know that there were compensation packages put in place for schools that apparently were very unsuccessful.

Senator FERGUSON—I mean for the general population.

Ms Bryson—For the general population, yes.

Senator FERGUSON—The general population buying books did not have compensation or tax cuts delivered at the same time the GST was introduced.

Ms Bryson—Yes. Reports and the studies have shown that it is the perception of a price rise that is a major factor, and if a ten per cent GST on books comes in in this country, the perception will be very high because we have no wholesale sales tax on books currently. Whereas the price for some other items might fall, the perception of the rise in books will actually be very high and that is a very large factor.

Senator FERGUSON—You say that the price increase is going to be 10 per cent. Mr Grant says seven to eight per cent. Mr Murphy says five per cent.

Ms Bryson—My 10 per cent is on overseas data. I have not done any Australian studies at this stage.

Senator FERGUSON—That puts a different emphasis on the light of things.

Miss Dalmau—If I may just reiterate though that we are fundamentally talking about a shift in the price of books. We understand that books are crucial to education, learning and literacy.

Senator FERGUSON—The evidence that has been put before us and in other documents is that the cost of producing books will drop. I think the figures we have are about 3.8 per cent, which, in fact, would make books cheaper to export. In other words, they will be cheaper to overseas buyers because there will be no GST on them. Of course, books that are imported and coming into Australia will also attract the GST. So, in fact, comparatively speaking, books that are exported will be better off against the importation of books which will attract the full GST.

Miss Dalmau—I just want to table that it is also a broader issue than cost alone. We are also talking about Australian publishing. We are talking about the infrastructure and the cultural protection here via Australian writers and reading. It is not simply a matter of a product moving across international borders. I will refer you to Mr Grant of the Publishers Association.

Mr Grant—If you accept that 3.8 per cent is part of the production of our books, the production cost of books is not that substantial a part of the ultimate retail price.

Mr Donoghue—It is only about one-sixth.

Mr Grant—So that is 3.8 per cent of one-sixth, if we accept your 3.8 per cent.

Senator FERGUSON—How are you going to define books?

Ms Bryson—Other countries define books by their ISBN number. If a package has a ISBN number, then it is a book.

Senator FERGUSON—That is what you are recommending for Australia?

Miss Dalmau—As president of the Australian Booksellers Association, I would reiterate that, as our colleague Rosie Wickert—who has had to leave—stated, reading and education must be taken in their broadest definitions. So reading a fiction novel or reading non-fiction, they are all books. I do not think you can isolate it or try and define it in a narrow sense. Equally with education; education in the home, education in the institution, education at all ages. I just ask that the Senate take the broadest definition.

Senator FERGUSON—That would include pornographic magazines, any type of magazine or newspaper. You do not really care what it is, as long as it is a published article?

Ms Gleeson—If I might answer your question. First of all on the issue of magazines, as Rosie Wickert stated, the significance for reading is the diversity of text. Now, I am fully aware of the government's intentions as far as literacy learning is concerned. You would be aware too that one of the major concerns in educational circles is the issue of boys and literacy. It is well documented that when boys reach adolescence, their reading of fiction declines dramatically but their reading of magazines and comic material may well pick up. A lot of people in educational circles are very keen that that kind of material is maintained as valid reading text for this diversity to encourage and deal with this crisis of boys and literacy.

On the issue of pornography, the Australian Society of Authors is a free speech organisation. As you would be aware, the government determines what is available for reading material in this country. If, in fact, the committee has a problem with pornography, I suggest you take it back to your own house.

CHAIR—Are you thinking of applying a GST on pornography, are you?

Senator FERGUSON—Not at all. I am suggesting a GST be the same for the whole lot. Can I suggest, for the record, that you are actually recommending that pornographic literature, magazines and books all be GST free?

Ms Gleeson—I am recommending that all printed material be GST free.

Senator FERGUSON—Thank you. I just wanted to clarify that. Mr Murphy, you have given us evidence prior to this at length. You have talked in prior evidence about benefits to economic welfare, compliance costs, real after-tax earnings and all sorts of issues like that. Is it true that the exemption of books would not benefit the net economic welfare and would increase compliance costs?

Mr C. Murphy—Yes. There is a qualification attached to that. What the economic modelling shows is summarised in the last two paragraphs on page 3 of the executive summary. It does show that if all books, newspapers and magazines were made GST free, the gains to the national economy as estimated by the modelling would be slightly eroded. That is correct.

The point you make would also be correct, that compliance costs would rise. At the same time the paper includes the rider that GST concessions for publishing may be justified as an extension to making education GST free. Reading, like undertaking formal education, can

provide benefits extending beyond the reader to the wider community and this is not allowed for in economic modelling. So they are both sides of the coin.

Senator FERGUSON—I think it is also fair to say that in evidence before this committee before you have said that, provided compensation is adequate, we should keep as many areas as possible inside the GST net, and that in fact real take-home pay or income tax benefits to families and compensation to low income and welfare recipients is the best way to make existing products that attract a GST more affordable.

Mr C. Murphy—With respect to equity issues, that is correct. The issue with books, particularly books used for educational purposes, is not so much an equity issue. It is more an efficiency issue. It comes down to an economic argument about positive externalities or spill-over effects from people reading books. They are not allowed for in the economic modelling. In principle, at least to the extent that there are such positive externalities or spill-over effects on people reading books, that does provide a special argument.

Senator FERGUSON—My final question is to Mr Andersen. You support the tax reform package and yet you ask for a special case to be made for books, magazines and newspapers. In effect what you are really asking us to do is to support the taxation of clothing and housing, all attracting a GST, but that *Playboy* and any other number of pornographic magazines should attract a GST? That is really what you are proposing, isn't it?

Mr Andersen—We are here to argue the case we have argued. We are not here as advocates for other sectors of the economy. My colleagues here have made the comments in relation to printed matter. I cannot add to those comments.

Senator FERGUSON—But it is what you are asking us to do? You say you support the tax package. So in fact that means that there will be a GST on clothing and housing and, as the package currently stands, on food. You are asking in support of the package that all those things be taxed, but in fact pornographic magazines be GST free?

Mr Andersen—We have made the point in our submission that we have an in-principle support for the concept of a GST, but, as Chris Murphy and others at this table have indicated, there is a very compelling case for printed matter, particularly books, magazines and newspapers, to be treated in a different manner.

A further point made earlier in relation to exports—and you made the point—was that costs will decline by some 3.8 per cent. It is worth noting that in the modelling work that Chris Murphy has done there will be a corresponding exchange rate lift of some 4.2 per cent, which more than compensates that cost reduction.

Miss Dalmau—At this point may I add and reiterate that, from the Booksellers Association's viewpoint, we are concerned that the fundamental, essential value of books be protected by a GST-free affect on the book industry. We are aware of the diversity of text material. We are fully aware of the availability of material, and we are—as everyone is—protected and guided by the government's censorship rules and the like. I do not believe it is a discussion that I am having today.

Ms Gleeson—May I also add that the point for the particular case for books is, of course, that they are currently free of other taxes. There is no wholesale sales tax, and so it is perfectly consistent to maintain their situation as GST free.

Senator BARTLETT—The printing industry submission mentions concern about the package not abolishing payroll tax as part of the overall package. Do you believe abolishing payroll tax is a higher priority than cutting petrol taxes, or even the company tax rate and business tax reform?

Mr Andersen—I would not like to put that in some sort of priority order. In every survey that we have ever conducted of our membership, payroll tax consistently comes very near the top of the list as an inhibiting factor certainly in their employment practices.

Senator BARTLETT—I am not sure who best to address this question to, because a number of you talk about elasticity in your submissions. Is the elasticity of books higher than or separate to elasticity on newspapers and magazines, et cetera? Is there any difference there?

Mr Grant—The Australian Publishers Association does not have any data to that effect, I am sorry.

Ms Bryson—My postgraduate research has just been confined to books.

Mr C. Murphy—There is perhaps one point I could make which has not been mentioned so far. To the extent that books, newspapers and magazines are sold to business, they can, of course, claim input tax credits on the GST. The effective price to business of books, newspapers and magazines will actually fall by around four per cent. Presumably there would be a positive response to that.

The issue is more what the response is in the consumer market to price increases, which I estimated at about five per cent. I think those elasticities are somewhere between one and two, which is what has been suggested. It is important to realise that we are only talking about the household part of the market.

Miss Dalmou—I would like to refer again to Fran Bryson my colleague, who has indicated very clearly the very real effect of perception in the public mind on the price of books.

Senator BARTLETT—What about employment effects specifically of authors or the broader related industry? Do you have any idea of the potential employment effects if it is zero rated or not?

Mr Donoghue—On behalf of the Australian Publishers Association, a number of our members have tried to think through what the effect on their cost structures would be if a GST were applied to books. Because we obviously do not get any wholesale sales tax in our manufacturing and product development processes now, nor in much of our distribution processes, we would not get any benefit of a reduction there.

The figure seems to be between 1.3 and 1.5 per cent of sales which would be the reduction in our expense base. If a GST were applied, this is how we arrive at a seven to eight per cent price increase. That would severely impact sales in very vulnerable sectors, for example tertiary students. The tertiary student market is a very large one in this country. Those students are reluctant to pay any increase, which we have noticed over the last couple of years, because of price increases due to the devaluation of the dollar.

In 1998 sales in that sector grew seven per cent according to our own APA figures, but unit sales went down six per cent. So our contemporary evidence in Australia at the moment is showing a very severe reaction to any price increases across the board.

Mr Andersen—Can I jump in there in relation to the comment on jobs? In my opening statement I did note that, if books were made GST free, our modelling suggests that total printing production will be some \$41 million higher. On that basis, there would be some 410 new positions created. If newspapers and magazines were also GST free, we estimate some 1,150 new positions would be created.

Senator CONROY—What is the impact on jobs if you do not get the exemption?

Mr Andersen—If we do not get the exemption? I have not got the exact number of jobs. I can come back to that, because there is a reduction in production of three per cent in books and other publishing, and some five per cent in other periodical publishing. So we can calculate that number for you.

Senator CONROY—You cannot just reverse those figures and say a thousand jobs would be lost. It is not that simple.

Mr Fisher—It is not that simple.

Mr Donoghue—I think it is much more simple on the publishing side, especially in education. Let's take the school market, for example. There is a book list system operating in Victoria and throughout most private schools in Australia. If the GST comes in, there is a great fear in the industry that the book list system will gradually collapse, because parents will assume it is better for the schools to purchase the books and just loan them out to the students on an annual basis. If that happens, the market will be severely curtailed and, of course, the employment effects of that will be quite severe indeed.

Ms Bryson—Can I just add that there have been some UK studies that estimated that, in the event of a 20 per cent drop in book sales, that would result in a 15 per cent fall in employment. That might be helpful. Also, in terms of industry numbers, it is a hard one to estimate also, because there are so many freelance people and so on. But in 1996 the ABS said that there were 4,513 persons employed full time in the book publishing companies. There are also, of course, freelancers and others. Also booksellers are estimated at employing upwards of 4,000 people, and authors are estimated at being, how many?

Ms Gleeson—Three thousand members of ours, but there are actually 10,000 creators earning money from public lending rights, so that is a minimum number there. If I might

have the last word on employment in this? Could I suggest that we do not forget that this vast industry is built on creativity and content.

Think of it this way: we are the plankton; writers are the bottom of the food chain as far as this particular industry is concerned. Books do not exist unless someone writes them in the first place, and I can assure you that, if there is not a considerable price increase in titles, with the flow-on reduction in books being published and people therefore earning less, there will not be those books written.

Senator BARTLETT—As a final point I would like to throw a question out to Mr Murphy. Your modelling and table at the end of the submission indicates a welfare loss of about \$17 million if books are exempt, which is a lot less than your estimate on zero rating tourism, for example. Are books then worth zero rating?

Miss Dalmau—Could I again remind you of the fundamental and essential point that a tax on books is a tax on knowledge.

Mr C. Murphy—The erosion of the welfare gain from making books GST free is relatively small compared with making inbound tourism GST free. But, on the other hand, the GST collected from books is a lot less than the GST collected from inbound tourism. So in relative terms it is probably much the same.

There are two points that I would like to make. One is that the modelling does show that, with the package as it stands, there is a gain in production for the printing industry as a whole of two per cent—and there would be some slight gain in employment in the total printing industry associated with that. Secondly, it is also true that it shows production losses in some sectors within the printing industry, with books down three per cent and magazines and periodicals down five per cent. So there would certainly be some job shifting within the printing industry, although the total employment in the industry as a whole would be much the same.

Senator BARTLETT—What about the plankton? Does life get any better for the plankton?

Mr C. Murphy—The estimated production loss for book publishing is three per cent.

Senator BARTLETT—As you say, that amount of \$17 million, in the total scheme of things, is fairly negligible in terms of overall welfare. Does an amount so small actually come within the range of statistical error?

Mr C. Murphy—No. There is a small loss and the reason there is a loss is that you are narrowing the tax base. But you are narrowing the tax base only slightly, so the loss is slight, which is what you would expect from formal economic modelling—when you narrow the tax base, there is some erosion of welfare. The question is this issue of whether there are spillover effects or positive externalities from people reading books which are not taken into account in the modelling and which would justify making books GST free.

Mr Grant—You may see an increase in employment in printing greeting cards and stationery at the cost of printing educational material and literature. The model does have to take the externalities into account.

Senator CONROY—I want to come to the disaggregation and the job shifting, which is Mr Murphy's code for job losses in some areas. Would you agree that there is going to be an increase in jobs in this sector?

Mr Grant—No, there will be a decline in jobs in this sector. In particular, as Mr Donoughue said, there will be a decline in jobs related to educational publishing and the publication of Australian books.

Senator CONROY—Mr Andersen, do you believe there is going to be an increase in jobs in your sector?

Mr Andersen—Again, the modelling suggests that, overall, as Chris Murphy has indicated, we are looking at some production increase, but there will be declines in the books, magazines and periodicals sector.

Senator CONROY—Do you produce greeting cards?

Mr Andersen—The sector does, yes.

Senator CONROY—So you would agree with Mr Murphy?

Senator FERGUSON—That shows you have never bought any.

Senator CONROY—I get sent a lot, though.

CHAIR—Order!

Senator CONROY—Mr Murphy, Ms Bryson indicated that overseas studies on elasticities were between, I think, one and 2½ per cent. What figure did you plug in?

Mr C. Murphy—It was not a question of plugging in a figure as such. We estimate income and price elasticities at a broader level and, essentially, infer down from there. The implied elasticity, if you look at the results with respect to household purchases of books, is around two, so I do not take issue with the figure of one to 2½. But I would make the point that I made before that that refers to household purchases of books, whereas the costs for sales to business are very significant also, and the cost of books, newspapers and magazines to business will actually drop.

Mr Grant—The sales of books to businesses is not very substantial. We certainly sell to students and parents, as we pointed out, but there is not a substantial sale of books to businesses.

Ms Bryson—I believe there is to professional development. I think that distinction may need to be made.

CHAIR—You would have to be a business, though, wouldn't you?

Senator CONROY—Mr Andersen, in your opening speech you mentioned that economic efficiency suggests—no, further than suggests; economic efficiency requires—a single rate of tax. Can you point me to any text that you publish or anyone elsewhere produces that says that? Can you give me a reference?

Mr Andersen—A reference that suggests—

Senator CONROY—A reference that actually states that economic efficiency requires a single rate of tax.

Mr Andersen—No, I think that there are generally accepted principles about what an acceptable taxation system is in terms of equity, simplicity and that sort of thing. Clearly, our experience—

Senator CONROY—Simplicity and economic efficiency are not the same things. You said that economic efficiency requires a single rate of tax. Perhaps Mr Murphy might like to help you.

Mr Andersen—My feeling is that our experience with the sales tax system has been so fraught with difficulties, because of the multiple rates and the way in our industry you can get down to things called notional wholesale value. You get difficulties with interpretations. It has become a system so difficult to administer and comply with that a single rate for our industry would certainly simplify things and make it much more efficient for our industry. There is simply no question about that.

Senator CONROY—You said economic efficiency. That is not the same as simplicity, is it? Mr Murphy, do you accept Mr Andersen's assertion that economic efficiency requires a single rate of taxation?

Mr C. Murphy—At the simplest level, the efficiency argument would say it should include everything.

Senator CONROY—I asked: does it require a single rate? I am not arguing about what is in the base. I am arguing about whether or not economic textbooks that you may have read suggest that economic efficiency requires a single rate. I am talking about the economic definition, not the accountant's definition which Mr Andersen is perhaps thinking is the same thing in terms of simplicity. Would not the theory of optimal levels of taxation suggest that it is inversely related to the elasticities of demand—those sorts of concepts which you might have stumbled across?

Mr C. Murphy—It is the Ramsay principle that you are referring to, that the tax rate should be inversely proportional to the price elasticities.

Senator CONROY—I am not saying that I agree with that. I am just saying that I am interested in your perception. It would certainly disagree that a single rate is the most economically efficient way to run a country.

Mr C. Murphy—I think the majority of tax economists would still argue for uniformity, putting aside special issues about externalities that we have been discussing this morning. The majority of tax economists would argue for uniformity for two reasons. One reason is, to discriminate you would need to know what the price elasticities of everything are, and you really do not have that information. The compliance costs go up if you start applying different rates to different things.

For another thing, the Ramsay principle arises from labour supply effects. If, in fact, you take labour supply as fixed, uniform tax rates are optimal. In my modelling, for example, the labour supply is held fixed, so uniform tax rates are optimal. That is all a bit academic, I am afraid, but I was trying to answer the question.

Miss Dalmau—If I may make the point that the discussion is about what information is being gleaned from textbooks. The very fact that textbooks can be consulted and do not have a tax on them is a valid point.

Senator CONROY—I could not agree with you more. Dr Kemp, the minister for education, has been making a lot of noises about literacy levels. I was wondering if somebody wanted to comment on whether or not that seems inconsistent?

Mr Grant—Of course we see that as fairly inconsistent. We are trying to invest in education. We acknowledge a serious literacy problem. We recognise in the statistics that we have given you that 69 per cent of books are purchased by parents and students who are going to be affected negatively by this tax. There is an immediate and direct impact on literacy and a drive for literacy. This is an externality which is critically important—immeasurable under Mr Murphy's model—and at the heart of what this debate is about.

Ms Gleeson—The Australian Society of Authors would like to back that one up completely. Rosie said to us before she had to leave that the really important thing about literacy is variety of text and the number of texts in the home at the early stages of learning and the maintaining of those skills. That does not happen by only attending class between 9.30 and 3.15. It happens from a lifelong experience of both the formal and the informal education. As Sandy just said, 69 per cent of books are purchased by parents and students. They are not purchased by libraries.

I would like to add one further point though, and that is that the plankton—let's maintain the image—is getting rather tired of cross-subsidising the country in the area of education. We fear that one of the things that is going to happen, if the number of books being sold to individuals declines, is that the dependence on educational libraries is going to increase.

We have just heard from the government in the last week that despite our current glowing economic circumstances, they are not going to provide, or retain, or restore the educational lending right. So the writing community, the creative community, feels as though it is going to be, not only suffering a considerable loss if the GST does come in, but also still maintaining our subsidy of the educational and library sector. So we feel doubly disillusioned.

Senator CONROY—Anyone else?

Ms Bryson—In that recent DEETYA study that was done of literacy of students in years 3 and 5, 30 per cent were found not to meet the identified performance criteria of literacy standards in Australia.

Senator CONROY—Mr Murphy, Senator Bartlett asked you a question earlier and you pointed to the qualifications you have in both directions about whether books were in or out. What is your opinion? Should they be in or out, after you have examined all your qualifications?

Mr C. Murphy—I cannot—

Senator CONROY—I am asking for your opinion—surely you have one.

Mr C. Murphy—I am here for the printing industry, so it is not my place to give a policy position for the printing industry.

Senator CONROY—I did not ask you to give one for them; I asked you to give one for yourself.

Mr C. Murphy—No, but I am here for the printing industry.

Senator FERGUSON—Senator Conroy makes mention of Dr Kemp's attitude towards high levels of literacy. In one of the submissions, you may wish to make a change where you talk about the effects of Australian commerce and industry and the effects for authors in Australian culture, which is spelt with an 'a' rather than an 'e'. You may wish to make that change.

Miss Dalmau—I also just reiterate that I believe that if children have not met appropriate literacy and numeracy standards by the end of primary school, they are unlikely to make up the gap through the rest of their schooling. Let me also bring this back to our fundamental point that education, the definition of the book, literacy, learning and knowledge are all absolutely and completely tied together and in that context we do not believe that there should be a tax on knowledge.

Ms Gleeson—I would also like to make a final comment, if I may. Could I draw the committee's attention to the fact that we are about to have a referendum on the constitution and when the Prime Minister wants to create a new preamble he turns to a poet? I hope Les is being appropriately recompensed for the task of maybe writing the preamble. I really feel that it is important that this committee thinks about the culture that they are going to be influencing for their children and grandchildren to be raised in.

In the last 30 years Australian content has dominated the literacy learning of Australian children. It was not the case when you and I were at school, Senator Cook. We were raised on British and American texts and we learnt more about their cultures via the literature that we experienced than we did about our own.

CHAIR—That is true.

Ms Gleeson—It does not happen now. Our kids are raised on *Possum Magic* by Mem Fox, on Paul Jennings's *Laconic Tales* or on Dorothy Porter's poetry, instead of only that experience of overseas. I am not saying that we should have only Australian content but, if the GST comes in on books, I think there is one absolute belief that we all share here at this table and that is that the number of books being written in this country will decline and the quality of Australian culture will deteriorate.

Mr Grant—We have said it and we would say it again: in particular, that relates to the structure of the educational publishing industry. Educational books will be disproportionately affected by the distortion that will drive expenditure towards institutions and away from parents, and it will dramatically reduce the number of Australian textbooks produced.

CHAIR—I thank the Australian Booksellers Association, the Australian Society of Authors, the Australian Publishers Association and the Printing Industries Association for your evidence this morning, and the assistance you have rendered our inquiry. There are some matters to come back on and we look forward to receiving that information.

[10.16 a.m.]

MURPHY, Mr Daniel Joseph, Director, Fugen Holdings

**SUTTON, Mr John David, National Secretary, Construction and General Division,
Construction, Forestry, Mining and Energy Union**

**WAINWRIGHT, Mr Raoul David, National Legal/Research Officer, Construction,
Forestry, Mining and Energy Union**

CHAIR—I welcome witnesses to the table. A document from Fugen headed ‘GST and a New Tax System’ has been circulated. I assume you would want that added to your submission?

Mr Sutton—Yes, Senator.

CHAIR—It is so ordered. I also assume, since your name appears first, Mr Sutton, that I should give you the call. We look forward to hearing from you in a short overview of your submission and then ask that you make yourself and your colleagues available for questions from the committee.

Mr Sutton—I am the National Secretary of the construction division of the CFMEU. I would begin by saying that tax rorting is spiralling out of control in the Australian construction industry today and the decision of the government to embark upon a tax reform package and all that that entails including scrapping the current system of tax collection in the industry, known as the prescribed payment system, or PPS, does open up a significant window of opportunity to get this problem or epidemic in our industry back under some sort of control. We are here today to talk to the committee about the dimensions of the current problem and how we got to be where we are, but then also put to the committee some proposals about how the tax problem in our industry can be brought back under some sort of control.

The background to the current situation is that in 1983 the then federal government decided to introduce a special tax collection system for the construction industry, and that is the system we have had in place for the last 16 years, the prescribed payment system. Initially, when that system was brought in, there was a 15 per cent withholding tax on all building work conducted in the country. Shortly thereafter, within a couple of years, that is, it was increased to 20 per cent, and that has been the system ever since. The reason that system was introduced was that pre 1983 the industry was notorious for being a sea of cash-in-hand payments in which a vast amount of tax was being denuded from the public purse because of the cash economy in the industry.

The PP system initially went some significant way to meeting the problem, in that tax started to be collected in this industry that previously had not been. The trouble over the years became the fact that employers and workers could see advantages in switching the work force over to the PP system away from the PAYE system, and over the years that trend has grown exponentially. We have a situation where the number of workers in the

industry on PAYE tax deductions is static and the numbers of workers on PPS tax deductions is continuing to grow at a steady rate.

There has been something like a 50 per cent growth in the number of PPS workers over the last 10 years. Of a blue collar work force today of around 400,000, the official figures say that around 170,000 are PPS workers and 230,000 are PAYE workers. Of the so-called 170,000 contract workers, a generous estimate would be that 50,000 of those were bona fide businesses and 120,000 of those were employees who are being wrongly characterised or classified as businesses when in fact they are purely and simply employees.

In the latter part of last year, we saw a study come out of the University of Sydney. If you go to the bottom line of that study, it says that a figure as high as \$2.2 billion is being avoided in taxation payments in the construction industry annually. That was the upper limit of the figure. My personal belief is that it is not that high. My personal belief is that it is probably in the range of \$1 billion to about \$1.4 billion. Nonetheless, there is no doubt in anyone's mind that the amount of tax that is being illegally avoided in the construction industry is a very significant amount of money and it could certainly play a very useful part in the current tax debate if a government were serious about bringing the problem under control.

You will probably hear more from Dan Murphy about the impact that it is having on industry, with workers switching across, some voluntarily, many on a mandatory basis, to the PP system. When I say 'many on a mandatory basis', in many parts of the country and in certain occupations—such as bricklaying, plastering, painting, scaffolding and various other trades, including carpentry—you cannot get a job, you will not be employed in this industry, unless you agree to be a PPS worker. The advertisements in the paper say 'PPS workers only' and when you go for the job it is made clear to you that that is the basis on which you will be employed.

That is where the industry is at today, with vast numbers of workers—in our estimation, at least 120,000—who are being characterised, or are characterising themselves, as businesses, accessing a vast range of business deductions and paying significantly lower tax than a like PAYE worker. That is the picture we see today. You will see in some of the papers we have presented, including our submission, how it is that a PAYE worker and an identical PPS worker can end up paying vastly different amounts of tax. That is the situation that does exist, with the PPS workers able to claim a vast range of deductions, split the income with their partner and use all sorts of techniques to pay very low amounts of tax in comparison to the PAYE worker.

You might ask: why is the union interested in it? We are interested in it from a number of points of view. This trend is having a very serious effect on a whole range of conditions and standards in the industry. Contractors who switch all their workers to the PP system invariably do not train anybody. They cannot take on apprentices because they are trying to operate at very cheap rates and undercut the more bona fide businesses in the industry. They have little regard to safety because PPS workers are only paid when they are working; they are not paid to stop and fix up safety. There are a whole range of bad and damaging effects that this whole trend is having on the industry in terms of dragging the industry down.

As a citizen of the country and a PAYE taxpayer myself, I do resent the fact that there are workers in this industry who I know are paying probably half the tax that I pay or half the tax that other workers who are paying full PAYE tax pay; they are paying half the tax paid by people who are abiding by the law. I think it is a very serious problem that is unfolding where some workers are paying their proper, legitimate PAYE tax and others are paying 50 per cent less—sometimes 60 or 70 per cent less—because they are picking up an illegal method and getting away with it willy-nilly.

You might say: where is the tax department in all of this? How come it has got to this level? How come the problem is so immense? The tax department seems to be unable, unwilling or incapable of handling the problem. The tax department has lost one or two legal cases on the question of what is an employee and what is a subcontractor. They lost the case involving couriers some years ago in the High Court. They seem to have been spooked by that. They seem to be keeping away from the industry for some reason.

The exception to that is that in the last fortnight we have seen the tax office raid two major Sydney contractors, two concrete formwork companies. Both of those companies employ hundreds of men each. Both of those companies have been nabbed by the tax department, one owing \$12 million in tax, the other owing \$8 million in tax. So that little raid in the last fortnight did uncover \$20 million in unpaid PAYE payments from those two contractors. I assure you that is the absolute tip of the iceberg. I could take the tax office to every construction site in the country and point out to them tax abuses right across the site. The problem is of epidemic proportions and something must be done before it drags the industry down to a level that none of us wants to see.

I will briefly mention the international experience. Lots of these things occur in other countries. In many respects, we are identical to the UK construction industry. In that industry, they got to the position where they had 1.1 million blue collar workers and they had virtually no employees—1.1 million construction workers in that industry but fewer than 100,000 employees. That is how bad it can get. In that country, under the previous conservative government, the last Chancellor of the Exchequer, Kenneth Clarke, together with the major construction employers, decided to do something about it. They have brought in a new system in Britain and are bringing the problem back under some control. I repeat that that was under the last conservative government. Two hundred thousand construction workers have gone back on to the PAYE system.

What do we say should happen in the future? The material that was put out by the government at the time of the election indicated that they are going to scrap the PP system. The material indicated that they are going to bring in a new quarterly self-reporting system for people in the construction industry. It also indicated that the coalition government is looking to introduce a business number. Everyone will have an ABN number that they will quote when they conduct building work around the country. We do not have much more detail than that. It seems to me that the proposals of the government are that the current withholding tax—the 20 per cent withholding—is to disappear, although that is not entirely clear from the material that the government has released to date.

The only other information we have on it is that there have been some questions asked in the Senate. The honourable senator who answered on behalf of the Treasurer gave some

indication of the government's intentions when he indicated that hundreds of thousands of kits are going to be distributed around the construction industry explaining to workers how they can access the business number. Apart from that, the bill which shapes the new system or puts the new system on the table is not yet available, so in some respects we are at a disadvantage in that we do not know the government's thinking and the shape of the new system.

We are here obviously to try to have some impact on the new system. We believe that if the new system is one where there is no withholding tax and it is simply a self-reporting system where workers will voluntarily, every three months, indicate how much money they earned in the last three months, if that is the major method of finding out what work was done, then we are really jumping out of the frying pan and into the fire. That is the absolute conclusion I must draw from that.

I repeat: the reason PPS was brought in in 1983 is that there was a vast cash economy and people in this industry could not be relied upon to accurately indicate the amount of work they had done in the preceding period.

Our view about the shape of the new system is that we are not opposed to the proposal of an ABN; we think that is probably a good proposal. We do not think quarterly self-reporting will answer the problem at all. We think there must be the retention of a withholding tax. In fact, we believe we should be moving to a 25 per cent withholding tax, which will cut down on the incentive for people to switch away from PAYE tax payments. After all, most PAYE people pay tax in the realm of 25 to 28 per cent of their income, and you cease to have the advantage if there is a 25 per cent withholding.

There is a final element which we think provides the real answer to getting this problem under some sort of control and having workers properly characterised according to their true legal identity, rather than giving everyone in the industry who wants one an ABN. At the moment, if you go to tech classes and talk to apprentices, you will find that half the apprentices say, 'I'm a subcontractor apprentice; I pay subcontractor tax.' You find builders' labourers who do nothing but dig holes who will tell you they are subcontract hole diggers. It is getting to farcical proportions.

The way to bring that under control is to give the ABN to legitimate businesses. In other words, do not hand out hundreds of thousands of ABNs to anyone who says they want one; rather, give them to legitimate businesses. There have to be serious tests put in place to ascertain what is a business and what is not a business. We have views about the kind of tests that could be put in place, but if we are serious about employees paying employee tax and businesses paying business tax, then we must have people classified according to their true identity. The allocation of the ABNs that the government proposes is a key mechanism in having people pay tax according to their true identity. I will stop at that point.

CHAIR—Thank you, Mr Sutton. We will turn to questions from the committee.

Mr Sutton—Would you prefer Mr Murphy to go next?

CHAIR—Certainly, Mr Murphy is here and he is entitled to be heard, but we are very cramped for time, so I ask the committee to bear that in mind—and you, too, Mr Murphy, if you would not mind. Please proceed, if you have got something to add.

Mr D. Murphy—Thank you for letting us come along today. I would like to distance myself from the CFMEU to start with. We probably only agree on about one in 100 issues, and this is the one.

Fugen Holdings is a bricklaying company in Sydney established 15 years ago by my brother and me with a mixer on the back of a ute. We employ some 300 people now in our business. The figures I quote in here are how I see things in our business. I am no accountant or economist; I am just a businessman.

I ask the question: will this new system solve the black hole that I see in the industry? We have to make some hard decisions next year and in the near future. Will we be run out of business as a legitimate tax paying company in this industry? If this week I wanted to change our company to PPS, I could save \$3.74 million on our turnover. That is some 15 to 20 per cent. We are surviving at the moment because the major builders need us on jobs and we have manpower and we have a good name. I want to be able to sleep at night knowing that we do pay our legitimate taxes, everyone is covered for workers compensation, and we do pay our fair way in this industry. As John said, the tax office caught a formwork company last week. I would challenge that there are probably another 100 out there.

Running quickly through my report because I know time is short, I think probably eight out of the 10 people out there in the industry on PPS should be under wages. If you turn up to the same job every day, you are meant to be under the PAYE system, as I read it. These two case studies show that our wages forecast for the year will be around \$15.9 million, of which PAYE tax is \$4.9 million. I know that payroll tax is not federal government, but if the New South Wales government wants to collect more money in payroll tax, it is less money the federal government have to fork out to them. I could save a million dollars there. I could save a million and a half dollars on workers compensation if I put them on the PPS, and I could save seven per cent on superannuation because they are meant to do that themselves, which they do not.

The deductions are 20 per cent on PPS but, by the time the accountant is finished with it, they do not pay more than 15 per cent. With a company like us, just on our remittances on PAYE tax, the federal government would be \$2.4 million worse off.

I dispute the figures of 170,000 for the industry. At the moment with the Olympics, the industry is running at over 200,000 people on the PP system. I would say the PAYE tax on that would be \$1.7 million. You can see the payroll tax, superannuation and workers compensation all there in figures. To me, the tax system in this country at the moment is diabolical. I have had meetings with the taxation office about it and they seem to have the attitude that, if they are getting 15 per cent, they are getting better than nothing. To me, that is not the correct answer. I pay my tax each week, and everybody in this room does, but we are not meant to be operating as contractors. About the only thing I have in common with the union is that I agree on that. A lot of our blokes are members of the union. I cannot see

why we should not all be paying our fair share of taxes. Unless this new system is going to cover it a lot better, we could be going backwards into the cash economy.

CHAIR—Thank you. Just for the record, Mr Sutton, do you support the government's tax package?

Mr Sutton—No, we do not support the key elements such as GST as a union. I am not here today to elaborate on that, although I will say that I think the GST, with the problems we have in the construction industry, will exacerbate it and will make it even more attractive for everyone to switch over to calling themselves contract workers because there are real business input advantages, et cetera, and the cash economy will probably spring up further. But I am not here today, in any serious way, to talk about GST.

CHAIR—Do I assume, therefore, that broadly put you support the ACTU submission to this inquiry?

Mr Sutton—Yes.

Senator O'CHEE—Mr Murphy, congratulations on being a very successful business. How long ago did you start up?

Mr D. Murphy—In 1984, 15 years ago, we registered a shelf company and built it up from there.

Senator O'CHEE—It was you and your brother?

Mr D. Murphy—My brother and I.

Senator O'CHEE—A cement mixer on the back of a ute?

Mr D. Murphy—Yes.

Senator O'CHEE—Did you become subcontractors to other people at that stage?

Mr D. Murphy—Yes, we subcontracted to all the major builders. We did about \$10 million of work on the casino and probably \$7 million out at the Olympic stadium.

Senator O'CHEE—A builder has a pretty good memory. What was the first job you did?

Mr D. Murphy—I started a little job for Girvan Bros over on the Pacific Highway on 19 November 1984.

Senator O'CHEE—What were you doing before then?

Mr D. Murphy—I was working on the PAYE system for another subcontractor in Sydney as an apprentice. I did my apprenticeship. We employ over 35 apprentices, all on PAYE. There is a drastic shortage of apprentices out there at the moment in this industry.

Senator O'CHEE—Sure, I accept that. When you started off, what made you and your brother that different from many of the people who are now on PPS? We know you had a company, but that is a choice people make. What was the difference between you and many of the other people who are subcontractors now?

Mr D. Murphy—We started off on a system where it was PAYE. I suppose when I started business I knew nothing else. I did borrow \$5,000 from mum and dad to start the business. We lost that in the first couple of months because we were paying PAYE. We have stuck to the PAYE system all the way through. We have had our ups and downs and only probably in the last three to four years have we been a successful business.

Senator O'CHEE—My question to you is not the way you deal with the employees, but about you, yourselves? You were subcontractors in 1984. What was the difference between you and your brother as two fellows calling themselves subcontractors?

Mr D. Murphy—We did have a company registered and we were employing two or three people at that time.

Senator O'CHEE—You accept that there are a whole heap of people who start off and become successful in building?

Mr D. Murphy—As subcontractors?

Senator O'CHEE—As subcontractors.

Mr D. Murphy—Yes. I have no problem with that. If I have a bloke turn up and work for me every day and he calls himself a subcontractor, by law he is not a subcontractor, because he is turning up to work for me on the same day—he is not supplying any materials or any gear—doing the same thing. He is not on a rate so that he lays 1,000, or so. He turns up on \$240 a day on PPS and he gets 20 per cent taken out of that. That is the difference between a subcontractor and a PPS worker. There are legitimate subcontractors there, yes—five and two gangs maybe. I would not like to affect anyone being able to afford to own their own house. It is every Aussie's dream probably to own their own house. But people have to pay their fair share of tax. If you are employing people, and they are turning up to work for you on the same job on the same day, they are not subcontractors.

Senator O'CHEE—I think the union would accept that there is an enormous degree of movement from one place to another in the building industry as well. Very few people stay with one employer for long periods of time. Isn't it clear that there is a very big grey area in the construction industry, particularly in the housing sector, rather than the other end of the spectrum? Isn't there a fairly large area of grey where people come onto a site and do a job?

Mr D. Murphy—I agree there are grey areas, but even in those grey areas people should still be paying 20 per cent, as a minimum—if not 25 to 30 per cent—on the PP system. I am a contractor to the major builders. I suppose out of the 300 employees I have, over 150 of them would have worked for me for five years or longer.

Mr Sutton—I acknowledge there is a grey area. I would not say it is as big as perhaps you are indicating. What I would say is that there is lots of black and white in the industry. Of the 170,000 that are officially recorded as subcontractors, I would say in my judgment conservatively that 50,000 of those are legitimate businesses and 120,000 are straight-out, black and white, employees. You would not need a very big microscope or a microscope at all to say, ‘They’re employees and they should be paying PAYE tax.’

I have no problem with the 50,000 that are legitimate businesses. When I want plumbing done at my house, I have my plumber. He is a business. He comes and does that work. I have no problem with him whatsoever.

What we have got a problem with is firms that compete with Dan Murphy that employ 100 bricklayers but, with the firms that he competes with, their 100 bricklayers, the whole of those 100 workers, are called PPS contract workers. They are all called independent businessmen and they all pay significantly lower tax than his men pay. When it comes time for him to compete with that other business, he has got a higher cost structure because he is paying all these people all the conditions and his people are paying full PAYE tax.

Senator O’CHEE—Maybe Mr Murphy has got such a high stable work force because he is a good employer.

Mr D. Murphy—We are a good employer and we have got a very good name. People will ring us before they ring anyone else. I could put this committee in a car this afternoon and take them to four jobs where I would have opposition blokes probably employing 100 men and they are all subcontractors to them, and they are saving 15 to 20 per cent as a minimum working for builders.

I would price a job for \$1 million; they would price it for \$800,000. The builder is going to take the \$800,000 price and think, ‘Well, if I get away with it, I have got away with it.’ If they get caught out by the union or by somebody else, the tax office, who do not seem to care, they will think, ‘Well, I might have to pay an extra \$50,000 to get the job finished. I have done my job for \$850,000 whereas Fugen wanted to charge me \$1 million.’

Senator O’CHEE—Mr Sutton, of the people who work in the building industry, what percentage work in the housing industry?

Mr Sutton—There are difficulties about how you define the housing industry, such as: is it only single brick veneer cottages; is it blocks of units; is it a residential notion, that is, is it medium density or high-rise residential? There is a lot of disagreement about how you define it.

Senator O’CHEE—What is your best estimate?

Mr Sutton—I would say about a third, perhaps as high as 40 per cent if you include the home unit jobs.

Senator O’CHEE—I suppose it depends on what the home units are too, obviously. There is a difference between a 20-storey building and a two-storey one.

Mr Sutton—Yes.

Senator O'CHEE—Let us work on somewhere between one-third and 40 per cent. In the housing sector, it is a different sort of operation—you tend to have much smaller builders, don't you?

Mr Sutton—Yes, absolutely.

Senator O'CHEE—In that sector do you tend to have many more self-employed people?

Mr Sutton—Yes, genuinely self-employed.

Senator O'CHEE—So it would be fair to say that many of those 33 to 40 per cent could well be genuine subcontractors?

Mr Sutton—Yes, no doubt about that.

Senator O'CHEE—Isn't the real problem in the housing sector, though, the fellows who want to do it for cash, or who say, 'I will do it for cash'?

Mr Sutton—No, it is very hard at the moment to work for cash because the PP system that currently prevails means that it is mandatory to take the 20 per cent. There is a paper trail and it is very hard to work for cash. There is cash in the industry, but it is a much smaller problem than the problem about people wrongly calling themselves subcontractors or businesses when they are in fact employees.

Senator O'CHEE—Although some of the stuff you have got here suggests that PPS is also being circumvented as well.

Mr Sutton—Where it is being rorted is that vast numbers of people are saying, 'I am on the PPS; I am a business; I am a contractor,' when in fact legitimately they are an employee and should be taxed according to PAYE. There is quite a bit of that in the housing industry as well, but there are more legitimate, small self-employed people in the housing industry. My thrust today is not so much the housing industry; my thrust today is the large building projects where there are contractors that employ 50, 80, 100, 150, 200 men and that have got every one of their men characterised as a subcontractor to them when in fact they are, pure and simple, black and white, employees.

Senator FERGUSON—I have one question for Mr Murphy in relation to PPS deductions—and I apologise for missing your oral submission. The CFMEU have recommended that serious consideration be given to increasing the rate to 25 per cent but, in line with the figures that you have given us, that would not actually solve your problem because of all the other things like payroll taxes, Workcover and all those things. So 25 per cent is not actually going to exacerbate your problem with people working as subbies under the PP system, is it?

Mr D. Murphy—No, it is not, but it is going to go a bit of the way towards starting to solve a problem. The workers compensation system in this state at the moment is in

diabolical problems with a huge blow-out. Those people are not paying workers compensation. We are paying over \$1 million a year in workers compensation. There are a lot of factors that are adjusted at the end of the year. But if everyone was paying their fair share, our workers compensation bill could come down to seven per cent, instead of the nine to 11 per cent we are up for.

I have a scenario at the moment in our company where we had two bricklayers come and work for us—one worked for seven days and one worked for eight days, and both went off with bad backs. They said they worked for us and, because I am covered, they cost our work compensation premium \$150,000 a year. The industry talk is, 'If you have got a bad back and you have been on PPS, go and work for one of the major bricklaying companies, like Fugen, and you will be covered.' So they worked for us for seven days or eight or nine days and here we are lobbed with that. You tell me that system is fair as well. With the PP system, I would say it should be put up to 30 per cent and maybe some goes as a levy towards some of these other funds that are short done by.

Senator FERGUSON—Unfortunately, we cannot do much about the Workcover system.

Senator CONROY—That is not true.

Senator FERGUSON—Not under this legislation.

Mr D. Murphy—Payroll tax is another one. If the state government picked up the payroll tax, it would be less money you people would have to fork out to them, too.

Senator FERGUSON—Yes, I understand.

Senator CONROY—I take issue with Senator Ferguson because one of the first decisions this government took when it was elected was to drop what was called the interposed entities legislation which had been proposed. That would have actually directly addressed this because it would have stopped the leak; it would have reclassified all the bodgie subcontractors back as employees which would have solved a lot of those problems. It would have meant that you could not parade around at one level of taxation saying, 'I am a subcontractor,' but at another level of taxation saying, 'I am an employee.' It would have brought everybody back into the system. But your government chose to withdraw that legislation, Senator Ferguson.

Senator FERGUSON—That is true.

Senator CONROY—The tax office recommended that that legislation go ahead. I follow this closely because, as certainly Mr Wainwright knows but possibly Mr Sutton does not, I was a superannuation officer with the Transport Workers Union, so the Crisis Courier case is a very real and live case to me and a great disappointment. We have many 'subcontractors' in the transport industry that pay as little as 10 cents in the dollar, which is the sort of problem that Mr Murphy experiences, and I am sure that you guys have got the same problem in your sector.

Could you expand on some of the evidence you have given in terms of the impact on revenue from the granting of ABNs and the possible problems that could flow if they drop the withholding tax proposal?

Mr Wainwright—On the question of the impact on revenue, our submission is based on information contained in a report from the University of Sydney, *Taxation and the labour market*, edited by John Buchanan. That states that, under the current system, when you have a look at the amount of self-employed people and then multiply that by the difference in the amount of tax that they are paying on average and the amount of tax people are paying under the PAYE system on average, they came up with a figure of \$2.2 billion per annum. That is, as Mr Sutton said earlier, at the outer limits of the revenue that the Commonwealth government is not collecting.

What our submission states is that if these so-called subcontractors are allowed to move into the new system seamlessly, receive an ABN and basically continue on as they are doing now, that revenue will continue to be forgone by the Commonwealth government. We also state that it is more than likely that the losses in revenue will increase if the GST is also introduced, because you will have these people with ABNs able to claim tax credits for their business inputs. At the moment they are claiming deductions for things like running a home office and so forth. Under the GST, they will be able to also claim GST credits for that. So you will be missing out not only on this taxation revenue that we have measured at \$2.2 billion at the outer limits but also on GST revenue. That amount of revenue has not been measured. We do not have the capability at the moment to measure that. You might be able to come up with a figure.

Senator CONROY—But it is substantial?

Mr Wainwright—We would expect so, yes.

Mr Sutton—I would just add that I have got 20 years experience in the industry now and when I have told a lot of meetings of workers and contractors that self-reporting might come back in, they all fall about laughing because everyone knows that, pre-1983, nobody in this industry, or very few people, ever quoted the correct amount of money that correlated with their earnings.

Senator CONROY—What do you think would be the impact of that on legitimate subcontractors? What is going to happen?

Mr Sutton—We could go out of frying pan into the fire. The legitimate contractors are under tremendous pressure now. The Fugens of this world are confined to a small sector of the industry—the very big projects where they are under the microscope and where legitimate companies operate. If the environment becomes even harder it is impossible to see where the quality contractors will go.

This man has 35 apprentices. He is unique in the building industry. I can take you to some of Australia's foremost construction companies with a turnover of more than \$1 billion that do not have 35 apprentices. I can take you to companies where the proprietor of the company is the President of the Master Builders Association or a very senior figure in the

industry and his company may not employ five apprentices. There are contractors like this gentleman here who are doing the right thing by our industry. We have to have a system in our industry that rewards legitimate contractors, not places them under unbearable pressure and destroys them. This is the way the industry is going. The legitimate people cannot survive. They cannot put in competitive quotes because they are surrounded by other businesses which are using the tax system to unfairly bid jobs at lower prices.

Mr Wainwright—Another way you could characterise it is by saying that the current PPS arrangements are effectively subsidising those businesses that do not use bona fide practices.

Senator CONROY—Why are you still bothering, Mr Murphy?

Mr D. Murphy—At the moment there is a big load of work out there and we can survive. If the union were not there, in 12 months time, depending on what happens, I would probably have to look at changing the whole structure of our business. We have got to look to the future. I ask you as a body and I ask Mr Reith and Mr Costello—what are your interests in getting this revenue in: the \$2 billion black hole or trying to break down companies like us which do PAYE and wages and pay our fair share of tax? It is a very hard line to draw.

I am a businessman and you probably know where my priorities lie. Mr Reith and Mr Costello have got to look at it and decide which way they want to go. I know it is probably them against the unions all the time. In a way if the unions had a lot more power I would be better off—that is, just in being a businessman. As I say, they have closed two of my jobs down today and I am blueing with them. So when I get them outside I will probably put one of them in a headlock.

Mr Sutton—Not good timing.

Senator FERGUSON—I am sure that they will be very cooperative.

Mr D. Murphy—The government have got to address the issue. It is a matter of whether they do go and put everyone into the contractor industry or leave everyone as a PAYE.

CHAIR—We are coming close to the end of our time.

Senator CONROY—Were you aware of the government withdrawing that legislation I referred to earlier as the interposed entities?

Mr D. Murphy—Sorry, no.

Senator CONROY—Mr Sutton or Mr Wainwright, why would employers prefer to engage labourer subcontractors than employees?

Mr Sutton—Because if you pay a worker, say, \$20 an hour you can say, 'Here is the \$20. You are a subcontract worker to me. I have no further responsibility towards you other than this \$20 an hour. I do not have to cover you for holidays, sick pay, workers

compensation, superannuation. I do not have to worry about payroll tax and all these other things.' Paying that worker \$20 an hour, even though that \$20 is more than the award level of, say, \$14 or \$15—and some workers say \$20—will do me. That \$20 is a much cheaper way of employing that worker than \$38. Mr Murphy will tell you how much the accurate cost is. By the time you compute all the on-costs, the payroll tax, the cost of running correct books, the cost of employing a bookkeeper to run a proper office, and all the things of a bona fide business, certainly the high \$30s is the correct man-hour rate. That is why businesses that set up in competition to him, or on the smaller jobs, put an advertisement in the paper and get 20 bricklayers. They will pay them \$20 an hour and they will have no on-costs, no nothing, so they can go and bid for jobs against him at 40 per cent less or 50 per cent less.

The missing ingredient in all this is: why doesn't that worker on the \$20 an hour say, 'This is a bad deal. The award is \$15, or the enterprise bargain is \$16, with holidays, sick pay, rostered days off, compo protection, superannuation and redundancy pay, and that is worth to me \$28-\$30'? Why does the worker cop it? The reason the worker cops it is that worker who is paid the \$20 and classified as a contractor pays significantly less tax than the employee.

On average, he pays somewhere around 10 per cent of his annual income in tax, whereas the PAYE person is paying somewhere between 25 per cent to 28 per cent of his income in tax. So at the bottom line, that \$20 worker, that \$20 employee—because that is what he really is—is competitive and has got reasonably similar take home pay to the PAYE worker because the tax system is subsidising the operations. What I mean is, legitimate PAYE people, people like me and others in the industry, the people he employs, the ones who pay \$400 or \$500 a week in PAYE tax, are subsidising these people who are paying significantly less in tax.

CHAIR—There may be other questions. We will place them on notice and, if we do, would you mind answering them in writing? What you have fingered today is a \$1 billion hole in revenue that can be, in fact, recovered. In bringing this session to a conclusion I feel it appropriate to summarise the evidence thus, that it is, according to Mr Murphy, if I see his two fingers, at least a \$2 billion hole—

Senator CONROY—Either that or he does not like you.

CHAIR—which has knock-on effects in terms of the organisation or the industry, the question of training and the future supply of qualified and skilled tradesmen, as well as other social costs if superannuation payments and compensation payments are not properly met. I thank you for the assistance you have provided to the inquiry. We are now in recess for five minutes.

Proceedings suspended from 11.03 a.m. to 11.12 a.m.

CARTER, Mr Peter, President, Australian Plaintiff Lawyers Association**McGREGOR, Mr Simon Knyvett, National Policy Manager, Australian Plaintiff Lawyers Association**

CHAIR—I welcome to the witness table Mr Carter and his colleague, Mr McGregor. Would you address us briefly on your submission and then be available to answer questions from the committee.

Mr Carter—I am the National President of the Australian Plaintiff Lawyers Association. In fact, I am a lawyer in a private solicitor's practice in Brisbane. The members of our association are lawyers and some others who are engaged in consumer litigation acting for the consumer as opposed, for example, to business, government or insurers.

Our submission is to point out what we see as a significant anomaly in the operation of the proposed GST in consumer litigation and the way it affects consumers. Apart from that point and a few other brief ones, we really do not have much to assist you with. We believe this point is very important and we believe that it is a matter which will have a real effect upon consumers and their ability to exercise their legal rights in our judicial system.

Before I go into that in greater detail, I add that our members operate now in a climate of virtually nil legal aid. Our members have in recent years developed a process which is called by various names. I call it a 'risk sharing' means of access to justice. Some people call it 'no win, no pay', contingent type litigation or speculative fees. In any event, the lawyers themselves have developed this system whereby they allow the public to get access to the courts by the lawyers sharing the risk and not getting paid in the event of an unsuccessful claim. This has gone a long way to redressing the imbalance between amply funded businesses and insurers on the one hand and the public on the other for whom, without this type of system and without meaningful legal aid, courts would be meaningless and the judicial system inaccessible.

It is in this climate that we are addressing you today in relation to the application of the goods and services tax which is, I understand it to be, a flat 10 per cent on goods and services, legal services being included. There would prima facie be an increase in the cost of legal services to the consumer of 10 per cent.

I have seen figures where government says that the effective increase will be reduced to around six per cent. However, because of the way the legal system operates in Australia, we say that the effective increase to the consumer in consumer litigation will be significantly higher. We say that because of this the increase could be as high as up to 30 per cent. We have given an example on page 2 under the heading of 'Incorrect assumptions'—a very simple example—where we say that in a large claim if the total lawyers' fees were \$10,000, under the Australian system the unsuccessful defendant would pay the majority of those costs but not all. In practice they would pay something like \$7,000 leaving the consumer to bear the rest out of the compensation payable for their injury. Ten per cent on that \$10,000 is \$1,000 so the consumer bears not just \$3,000 but, after the application of GST, \$4,000. There we have a 30 per cent increase in the cost to the consumer. We say the effect of that

is a disincentive on consumers exercising their rights on the one hand, but we also say that it creates a greater imbalance between the business community, government or insurers as opposed to consumers as their opponents.

Finally, our point is that it ought to be aired that, in fact, in this area, it will not be a 10 per cent or a six per cent increase in fees, it could well be as high as 20 to 30 per cent. We think this is a matter which should be considered by government. It may be appropriate—and we think it is appropriate—for it to be particularly addressed in the legislation.

We have mentioned some ways that this could be addressed—by having consumer litigation expenses exempted or zero rated or a tax rebate apply, as happens with health care costs, or some other measures which we have referred to. That is the major aspect of our submission and I would be happy to answer any queries from committee members in relation to it.

There are some other aspects which I will just touch on briefly. For example, the compliance costs to small businesses, of which our members mainly consist, will be high. That has been covered in other submissions so I do not intend to address it in detail. There are also some other issues concerning the duration of some of this litigation which spans many years. It may be unique in that the matter will not be concluded and the obligation to pay for the service will not arise until some time well after the introduction of the tax but much of the work which has been conducted in relation to it may have predated by many years the June 2000 date. That is all I have but I am happy to answer any questions from committee members.

CHAIR—Thank you, Mr Carter. Is it your intention to invite Mr McGregor to supplement or shall we go straight to questions?

Mr Carter—I think we should ask Simon McGregor.

Mr McGregor—I am the National Policy Manager for APLA. We would be quite content to move straight to questions.

CHAIR—Have you put to the government the concerns you have raised with us?

Mr Carter—Prior to the last election we wrote to the relevant minister and to members about this.

CHAIR—Have you put your views forward since the bills have come before the parliament?

Mr McGregor—No, not since then. We have been following through our submission to this committee.

CHAIR—I see. I just make this observation: we are the Senate, we are part of the legislative wing of government; they are the executive, they present the bills. If there are changes of merit that they want to make, it is up to them to make them before they come to us. I suggest it would be worth while to put your views directly to them as well.

Senator O'CHEE—I understand your principal concern is basically the recoverability of GST on a successful litigant's costs when they receive a costs order at the end of the day from the unsuccessful party. Is that correct?

Mr Carter—That may well be the best way of expressing it, yes.

Senator O'CHEE—Have you read the white paper?

Mr Carter—Not completely, no.

Senator O'CHEE—Where in the government's white paper, or elsewhere, does it say that a GST on the costs of the successful party are not recoverable?

Mr Carter—It is the unsuccessful party paying the successful party's contribution to costs. That is not necessarily a service. I cannot see how that would be included as a service. That being the case, I cannot see that there would be any GST payable on that, without it being specially dealt with. The only GST would be payable when the successful party's lawyer—the consumer's lawyer—renders the account and then deducts from it the share of costs paid by the unsuccessful defendant.

Senator O'CHEE—But in your example here you refer to a \$10,000 bill and you assume that the GST adds \$1,000. That is fine. Then you say generally about two-thirds is recovered. Therefore, you take two-thirds of the \$10,000. Why is it not correct to take two-thirds of \$11,000?

Mr McGregor—The value-added stage of the service that is provided is legal services for the plaintiff. At the end of a court case, when the court allocates out the costs by operation of the court rules, there would be no value-added component at that stage. So, unless it is resolved in the GST legislation, the GST component would attach just to the plaintiff's bill and not necessarily to the defendant's contribution.

Senator O'CHEE—If I end up in court, win and get an order from the judge that my costs will be paid, my concern is that, if the other fellow does not want to pay what I tell him is a fair cost and he races off to a cost assessor to get a bill of costs in taxable form, the cost assessor will disallow the GST component of my lawyer's bill. Is that what you are saying? It is a cost which I have to bear, and it would be assessable and taxable.

Mr Carter—If that is the mode of operation, that would not have the adverse effect you are referring to. But we believe it requires clarification, because it is not clear. I do not believe that the contribution, by complying with a costs order, is a provision of a service, because a service has not been provided by the party paying it.

Senator O'CHEE—No, but the point I am making to you is that, when you are dealing with costs and one side loses, they are not paying for the services of the lawyers on the other side; they are paying the costs of the other side on a party to party basis. They are paying the cost; they are not paying for the services of my lawyer in the event of my winning. So, if the GST is part of my costs, I am asking you to point out anything which would suggest that this will not be a recoverable cost.

Mr Carter—We are concerned that it will not be a recoverable cost, and we are concerned to see that that is clarified.

Senator O'CHEE—Yes, but the only basis of that concern is that you do not think that it is a service. But we have already demonstrated that a costs order is an order for costs, and not an order to pay for the services of the other side. It is not like an order for payment for services per quantum meruit.

Mr Carter—We will be very happy if that is the conclusion that occurs in practice.

Senator O'CHEE—But there is nothing in this document that would suggest otherwise.

Mr McGregor—With respect, Senator, I think there is, because the GST is going to attach to where the service is provided. If, subsequent to a court case, there is a ruling on how that ought to be contributed to that cost, there is no GST that will attach there and, as a defendant lawyer, the party making the contribution might—and would sensibly—say, 'We are not paying the GST. We do not have to'.

Senator O'CHEE—But are we not confusing a contractual delivery of services—say I contract with you to be my lawyer—and a costs order against an unsuccessful litigant, asking them to pay the party to party costs of the successful lawyer and the bill delivered by their lawyer? There is no contractual relationship between the unsuccessful litigant and the successful litigant's lawyers. It is just a matter of costs. Do you accept the fact that, legally, the GST is a cost that has to be borne? Is it not a cost as soon as it is imposed by statute?

Mr Carter—Yes.

Senator O'CHEE—Thank you.

Senator FERGUSON—You head one of the paragraphs of your submission 'Incorrect assumptions'. I presume you are referring to the government. Who have you run your cost scenarios past to verify them, and is it possible that you have made some incorrect assumptions?

Mr Carter—Our scenario is simply put in the second paragraph under that heading. We do not believe that this is a matter which can be left to interpretation. We believe that, with statutes being introduced, it should be clarified now. If Senator O'Chee's interpretation is the interpretation the government wants to adopt, why can it not be clarified? We do not want this matter ending up in the High Court after years and years of litigation and uncertainty. Consumers deserve better than that.

Senator FERGUSON—Senator O'Chee said to you in his questioning that, if you refer to the ANTS document, it is quite clear.

Mr Carter—If Senator O'Chee is saying that this issue is specifically addressed, then we have made an incorrect assumption, but I do not understand that to be the point.

Senator FERGUSON—Have you run this past anybody else, or is this something you are presenting on behalf of just your body? Have you had it tested anywhere? Does anybody else have a view on the assumptions you have made?

Mr Carter—Other organisations in our industry have a view on this, and they think it is a significant problem.

Senator FERGUSON—Are you in favour of the tax reform package?

Mr Carter—Our organisation is not here to debate the pros and cons of the GST package.

Senator FERGUSON—I am not asking for a debate, I am just asking whether you are in favour of it because—

Mr Carter—Personally, no, Senator.

Senator FERGUSON—I think that is probably clear, and we have that on the record. You represent 1,300—

Senator CONROY—Mr Murphy did not have to put anything on the record before. I am sure he had some views. Why didn't you—

Senator FERGUSON—Mr Murphy was here representing the printing industry.

CHAIR—Order! There will be plenty of time to debate these issues in the chamber. This is an opportunity to hear the witnesses.

Senator FERGUSON—I agree, Mr Chairman.

CHAIR—Please proceed, Senator Ferguson, and please do not be provocative either, because this a two-way street.

Senator FERGUSON—I am trying very hard not to be provocative, Mr Chairman, but we have the occasional interjection from the right—I should have said the left.

CHAIR—Just proceed.

Senator FERGUSON—Your organisation has over 1,300 members. How many plaintiff lawyers are there in Australia?

Mr Carter—Mr McGregor tells me there are 50,000 lawyers of all persuasions. We are consumer lawyers.

Senator FERGUSON—Does that include the ones in parliament as well?

Mr Carter—It probably does. We represent a very discrete interest group, and that is consumer lawyers. Our members act for consumers in obtaining fair compensation. These members may often represent firms employing many others.

Senator FERGUSON—How many lawyers' bodies are there? I must admit I had never heard of the Australian Plaintiff Lawyers Association before, but I am not a legal man anyway.

Mr Carter—You are excused, Senator.

Senator FERGUSON—Thank you.

Mr Carter—The peak organisation is the Law Council of Australia. We have no interest in their views. With the greatest respect, they are mainly a body which is interested in lawyers. Our interest is in the consumers. This submission is on behalf of consumers as much as it is on behalf of the lawyers who will be involved in administering it.

Senator FERGUSON—So, as a lawyer, you are not interested in lawyers; you are only interested in consumers?

Mr Carter—Our interests are coincidental.

Senator FERGUSON—How many different lawyer organisations are there?

Mr Carter—These days, the organisations tend to represent different fields. Ours is the peak organisation in our field. There is one for family law and one for insurance law and one for commercial lawyers.

Senator FERGUSON—You say there are 50,000 lawyers in Australia and 1,300 in your organisation. You do not know how many plaintiff lawyers there are? Would you have any idea?

Mr Carter—Around 4,000, perhaps. There is no doubt that we speak on behalf of plaintiff lawyers. I do not think anyone would deny that.

Senator FERGUSON—You have listed a number of alternatives. In general terms, when groups come along representing a particular section of the industry, one of the problems we have is that many of the organisations say, 'Yes, we support tax reform, but we would like these changes made.' You are in a different position, because you do not support tax reform but you still want changes made.

Mr Carter—No, our position is in relation to this change and how it will decrease access to justice. We are not here to advocate any other method of tax reform.

Senator CONROY—You are verballing the witnesses.

Senator FERGUSON—Senator Conroy, you are having a very bad day. I am glad it is Friday.

Senator CONROY—Could you expand on the difference it would make, in terms of an increased legal aid for a start, if we could get some increased legal aid instead of a GST?

Mr McGregor—I am not sure I understand your question. Are you interested in whether legal aid could compensate by increasing access to justice, in the way that the increase in legal costs is going to deter people?

Senator CONROY—Would that solve your problem?

Mr McGregor—Yes, that would. As a broad brush approach, that money in the legal aid system would need to be applied to civil access to justice. At the moment, those funds in the legal aid pool are so small that virtually no civil legal aid can be extended. It is with that in the background, added to the fact that corporate legal entities get tax deductibility for all their expenses, that we are particularly alarmed that a GST will additionally decrease access to justice. You could address it in several ways, one of which would be to increase legal aid and have it allocated for civil use.

Senator CONROY—Have the government made any suggestion that they are looking at increasing legal aid?

Mr McGregor—No. We have discussed this with the Commonwealth Attorney-General, and there is no proposal there, unfortunately.

Senator CONROY—What is the record in the last few years in terms of funding for legal aid?

Mr McGregor—It has been constantly declining, with a sharp crisis point reached 12 to 18 months ago. We now see our members and various other members of the legal profession carrying the system on their own free work.

Senator CONROY—So, even if the government were to compensate you for the impacts of the GST and say, ‘All right, we will make sure you are at the same level as you are right now,’ you would say that would not increase access to justice?

Mr McGregor—It would stop the further decline of access to justice, and that would be good. As it currently stands, it looks like it is about to go down even further.

Senator FERGUSON—You must have a pipeline to the Treasurer’s office. You seem to know everything.

Mr McGregor—It is not as good a one as I would like.

CHAIR—This presentation has turned out to be shorter than we anticipated, but the point has been well registered with the committee. Thank you very much, Mr Carter and Mr McGregor. I reiterate what I said earlier: it would be useful to us if you could deal directly with the government and let us know what their response is, so that when we have got the bills before us in the chamber we know whether they intend as a government to amend them to take account of your point.

I intend, at least in the report, to show what changes were asked for by witnesses who have come before us asking for changes. In that way, we can properly reflect to the Senate the evidence given to us. I am also quite sure that, if these matters are not pressed with the government, senators will say, ‘Why haven’t they been pressed? Why have they been left to the Senate?’

Mr McGregor—We will do that for you.

CHAIR—Thank you very much, and thank you for assisting our inquiry in the way you have this morning.

Proceedings suspended from 11.36 a.m. to 11.42 a.m.

DAWSON, Mr Cress John, National Fleet Manager, Avis Australia

WILLIAMSON, Mr Graeme Bruce, Operations Controller Australia, Avis Australia

BOWYER, Mr James, Managing Director, Hertz Australia Pty Ltd

EMANOUEL, Mr Newman, Financial Controller, Thrifty Car Rental

SHIELDS, Mr Adrian, Manager, Ernst and Young, on behalf of Avis, Hertz and Thrifty

TAFFT, Mr Mark, National Director, GST Services, Ernst and Young on behalf of Avis, Hertz and Thrifty

CHAIR—Mr Tafft, can I ask you on behalf of all the other companies that are appearing here to give us an overview of your submission? If any of your colleagues need to supplement your remarks, we will take brief supplementations and then go to questions, if we may.

Mr Tafft—I might just start with a brief overview as to how we would like to proceed with our submission here today. I will be talking to a paper which has just been handed to you. It is not designed to overtake the written submission that you have before you already. That remains the primary document.

CHAIR—Do you want to add this document to your submission and incorporate it in the evidence?

Mr Tafft—Yes, I would please.

CHAIR—It is agreed, and so ordered.

Mr Tafft—The purpose of the document added to evidence today is to attempt to simplify and commercialise the points made in the submission so that we can move forward in a reasonably rapid manner.

The concern of the industry is that the transitional measures in relation to GST adversely and largely unnecessarily impact the car rental industry during the transitional phase. I will be making a brief opening statement, then I will pass to Mr Graeme Williamson from Avis who will give you a lot more background as to the inner workings of the industry and why this is a particular concern for the rental car industry, as opposed to other industries which are major users of motor vehicles.

There are two fundamental concerns of the industry. One is the way these provisions will deal with the stock of vehicles in the motor car industry on hand as at GST day, 1 July next year. The second issue is how motor vehicles purchased post GST are treated. Having said that, I will pass to Mr Graeme Williamson.

Mr Williamson—I just want to make it clear that we are here to represent the rent-a-car industry. The rent-a-car industry is not made up of just Avis, Thrifty and Hertz, but there are a multitude of small players out there in the market, independent companies, as well as within our organisations. We have a significant number of franchisees who are all small business owners. Due to the competitive nature of the business and the traditional environment of rivalry, there has never been an industry body. So we have come together today because of the magnitude of the issue to present our case.

As an industry we spend a lot of time researching our customers. As an industry we are respected as being a well-run group, both by the international car rental industry and by business in general in Australia. Just to give an example, my company Avis won the Australian quality award in 1992 and we also won Australian customer service awards in 1996 and 1997. That is just to give you an idea that it is a fairly well-run industry.

It is fairly hard to compile information due to the nature of the business. It is so fragmented and there is not a lot of cooperation between the players. So it is hard to come by information. Just to give you an example, I went through the *Yellow Pages* yesterday and there are over 150 rent-a-car companies listed in Sydney alone. It is an extremely competitive market.

We have tried to put together some numbers to give you some idea, but those numbers are really hard to work out because of the different sizes of the companies in their fleet arrangements. Each company works with very different agreements with the manufacturers, et cetera. There are also differences in the mix of cars that they may run, the pricing of those cars that they can get you, the sizes, et cetera. Then the mixes of the customers and types of business can lead to different utilisation considerations; if you are running a mainly monthly type of business, versus running a daily business for people coming into the airport to do business, et cetera. We have tried to put in a lot of thought about the implications of the GST legislation. We would welcome challenge if we have not got it right, but we certainly believe that we are in a very inequitable position as an industry.

A key point for us is that we use new cars and we need to do so. Our customer research tells us very much that that is what customers expect when they come to get a car. Effectively, for us they are our trading stock. A whitegoods manufacturer or whatever can sell their fridges and there is a sales tax adjustment for those industries. We turn our cars over annually and it effectively is the key part of our business.

We have to provide cars in very good condition for the customers. Our customer research has certainly led us towards that. The way to stay in business in the rent-a-car industry is a really fine balancing act between a few factors. The cost of acquisition of the vehicles and the selling price that you get when you get rid of the vehicles is very fundamental to the cost of holding that car, and what rate we have to try and recover. The utilisation that we run through that time and the amount of cars that we actually hold at any particular time all weigh off against each other.

The value of used cars, especially cars that are nearly new, is a very significant part of the cost of our industry. A lot of the stock that is provided in the used vehicle market is also from the rent-a-car industry. For the rent-a-car industry, the transition from sales tax to GST

will see new car prices fall. There are varying figures out there in the market, which I am sure you are aware of, and we have taken a figure of eight per cent for the example here.

Mr Tafft—That figure is consistent with figures appearing in the Vos report.

Mr Williamson—This will decrease the disposal proceeds we get when we sell the cars or, if we lease cars, the leasing company's disposal proceeds when they sell the cars. Having said that, the impact of this GST is very significant, due to the impact on the acquisition and the disposal of vehicles. We believe the rental car industry is in a unique position, because we do turn those cars over so significantly and that is the key part of our business.

Mr Tafft—To sum that up, the critical concern is that vehicles need to be purchased through a peak buying period that commences from June through to October of this year. Those vehicles will be purchased inclusive of 22 per cent sales tax, and they will have to be disposed of by the industry within a 12-month period. That means a significant proportion of them, if not all, will have to be disposed of into the post GST market. In the post GST market for used cars, those cars will have a greatly reduced value. So, if you have bought inclusive of sales tax and you are selling into that, you will take a loss.

Mr Shields—In addition, there will be a potential liability for GST on the disposal of the cars as well. So, out of the disposal proceeds—

Senator FERGUSON—We understand that.

Mr Tafft—When you sell any used goods in the GST environment, as a—

Senator GIBSON—But there is a dealer's margin.

Mr Tafft—Yes, but we are talking about transitional goods. So that when the vehicles are disposed of by this industry, they will have an output tax liability representing one-eleventh of the proceeds. That is our reading of the provisions.

Senator FERGUSON—Output tax?

Mr Tafft—Yes. So when you sell—

Senator GIBSON—I don't think that is correct.

Mr Tafft—If we take the example of items that are all purchased in the post GST environment, you will see a vehicle which is purchased new. There, you may get an input tax credit, if we are right the way down the track: we will come to those bits again a little later.

Senator GIBSON—Yes. Could you go to the long-term solution.

Mr Tafft—Yes. When you sell a vehicle as a taxable enterprise, you have a liability for output tax on that vehicle.

Senator GIBSON—No, you don't.

Mr Tafft—You do. In the longer term, you have an output tax liability for a sale of a used vehicle, but on acquisition you have obtained a full input tax credit for it. The theory behind that is relatively simple. To the extent that the value of that vehicle has been reflected in the price of your other goods and services, it has fallen into the tax net. To the extent that it has not and you are disposing of it, it then falls into the tax net. You are right when you refer to dealer's margin. That is a specific policy initiative designed to prevent used car dealers from ceasing to be able to function in the market. What they get is a kind of notional input tax credit for what they paid on acquisition of the vehicle.

Senator GIBSON—That is right. They get a notional one-eleventh of their purchase price.

Mr Tafft—Yes. But we are not getting a notional one-eleventh when we are talking about vehicles acquired pre-GST, inclusive of sales tax. That is the problem. It kicks in in that period immediately following, and it kicks in in a very pronounced way for an industry whose primary income generating activity is the vehicles themselves.

Senator GIBSON—I am still confused. Let us go back to the long-term solution. If we can sort that out, then we can go back to the transition.

One of you buys a car three years hence, and the company that buys the car pays 10 per cent GST on that, and you lease that vehicle from them for the 12-months period, say, and then hand the vehicle back to them at the end of the 12-month period. They then dispose of that car, through a second-hand dealer, for instance. The second-hand dealer, in selling the car second-hand, is only liable for GST on his margin, but he does not have to disclose his margin, because of the imputed tax credit.

Mr Tafft—No, he doesn't.

Senator GIBSON—But the imputed tax credit has nothing to do with you selling the car to the dealer.

Senator FERGUSON—It is not a cost to you.

Mr Shields—No, I think what you are saying is absolutely correct, but that is in the long term. We are more concerned with the transitional period where a vehicle has been acquired and sales tax paid. There is nothing in this legislation that stops a liability eventuating in the hands of the rental car company that disposes of the vehicle once GST has commenced to operate.

Senator FERGUSON—But why is there a liability when you dispose of it?

Mr Shields—Because it is a supply of goods for consideration. The only way that there would be no liability is if the legislation specifically made that supply GST free or input taxed.

Senator FERGUSON—But it is a second-hand vehicle.

Senator GIBSON—It is a second-hand vehicle, yes.

Mr Shields—That is right.

Senator FERGUSON—Which does not attract the GST.

Mr Tafft—No. Any supply, whether of second-hand goods or not, attracts GST.

Senator GIBSON—We should check that out.

Mr Bowyer—Another issue here is that we in the rental car industry are not treated as dealers in cars.

Senator GIBSON—No, I understand that. The sale of second-hand goods is taxed on the margin but, in order to hide the dealers' margin, it was agreed to go the same route as Canada and New Zealand and allow an imputed credit: one-eleventh of the purchase price by the dealer.

Mr Bowyer—That is agreed. The issue is, though, that we buy the cars new and we then sell them after 12 months. Is the definition then that those cars that we sell after 12 months are second-hand goods?

Senator GIBSON—Yes.

Mr Bowyer—As we understand it, that is not the case.

Senator FERGUSON—That is something we will have to check.

Mr Tafft—If it would assist, we could come back or supply to you a statement of how we think these provisions apply in that circumstance.

Senator GIBSON—That would be very useful, Mr Tafft.

Mr Tafft—If we can proceed on the basis that we think we do have an output tax liability and we can talk about the way we might address it, then we will go from there.

CHAIR—Have you talked to Treasury or the Treasurer's office about this, and have you reached agreement with them that this is a proper reflection of their understanding of their bills?

Mr Tafft—Yes, I believe this is the case.

CHAIR—You have talked to Treasury?

Mr Tafft—No, I have talked to tax office people.

CHAIR—And, looking at the bills before us, they concur with your analysis of your liabilities, within the meaning of those bills?

Mr Tafft—Yes. We can come back to you with an explanation of that and, in the interests of saving you time, we can try to get confirming statements from them.

CHAIR—That takes the discussion some distance. The other part of it is, having established that point as a threshold, then you move to the next argument, which is what relief you would require. Have you pressed that argument and, if you have, have you had a response?

Mr Tafft—We put in submissions early on and there has been no response. If I can go back a step, there are two elements here. The first is GST on disposal of vehicles post GST. That represents, in our figuring, perhaps 50 per cent of the problem for pre-GST vehicles. Just to keep that in context, the other 50 per cent of the problem is associated with the reduction in value of the vehicles.

I will go back to an earlier point, which Adrian has just raised with me. It may preclude the need to come back with more stuff. At page 3158 of the ATP, it says that if you acquire second-hand vehicles from an unregistered entity, the supply to you will not be a taxable supply. All of these businesses will be registered entities. So therein lies the explanation, in terms of the liability on disposal of second-hand goods. That is where that margin issue comes into play.

CHAIR—You have put these views, but you have not, at this stage, received a reply to them. Are you in expectation of receiving an answer by a given time?

Mr Tafft—No, I am not.

CHAIR—Our problem is that we have to report by 19 April to the Senate. Presumably, upon receiving our report the Senate will commence debate on the bills and, very likely, we will have to start voting on them. In order to reflect the views of people and organisations that have put views to us, I would want to reflect in the report the views organisations have asked us to seek amendments for, if that is what you are leading to, as I suspect it is.

Mr Tafft—Yes.

CHAIR—But it is a bit idle for me to do that, if you sort out your problems with the government before it hits our chamber and before we direct our attention to it. So, in order to settle the issues we will have to debate, could you clarify for us, by no later than 10 April, whether you have sorted it out, in which case we will not have to bother, or whether you have not and you want us to bother. That would be of very great use to us in handling the logistics of this.

Mr Tafft—We will come back and confirm reasonably shortly that we want you to bother—with a history, if you like. In leading the senators to where the senators think I am leading, where this takes us, we believe, is that there is an increased likelihood that this industry will defer its purchasing of motor vehicles. It is a sensible, commonsense response

to make that decision, if you are faced with a loss on disposal of these vehicles and if you have some capacity to defer.

If I can take you to page 4 of the little booklet provided today, I think we have covered in concept the illustrative example at the top half of page 4. It is really indicating the scale of the problem as we perceive it. On a vehicle costing, on an average cost basis of about \$20,000, tax exclusive pre GST, when that vehicle is disposed of post GST the total additional cost attributable to that is in the order of \$3,182. Around half of that is attributable to the lower value of the vehicle, and half is attributable to this GST associated with the sale of the vehicle.

If we then take deferring the purchase of new vehicles as a fairly commonsense approach by an industry—in effect, to ‘fleet down’, in a way—we have walked through what that means in terms of revenue implications at state and federal level. That points to a reduced revenue associated with this in the order of \$68 million.

I will move on to some proposed modifications. We think this is one of those cases where, if left alone, there will be reduced revenue for the government at federal level and at state level, bearing in mind that around \$750 stamp duty on registration is payable. If, on the other hand, sales tax rates are reduced, either by way of a straight reduction or by way of some form of rebate for the car hire industry, we think that deferral of purchasing will not happen. That means revenue that would otherwise be forgone will remain substantially in place, and the problem for the car hire industry will largely go away. So I think this is one of those cases where it may be a win-win situation. You do not get the commercial disruption in the middle; you do not lose revenue. I remind senators of what happened with the luxury car tax. This is an industry very sensitive to change.

That takes us through a proposal which is simply to reduce sales tax rates for the car hire industry early enough for this to not impact on buying cycles and, into the bargain, to say that, when these vehicles are sold in the post GST market, having had sales tax paid on them, there should not be any further GST. That, we think, is a fairly commonsense approach. That addresses the first of the two concerns we have raised in the paper.

The second of the concerns relates to vehicles purchased post GST where the transitional rules for motor vehicles deny input tax credits for people in the car hire industry, initially in full in the first year and in half for the second year. This, we think, is discriminatory in the sense that it is the only hire industry where input tax credits are to be denied. So, if I look at major capital equipment hirers such as Coates Hire and those sorts of people, they will not be denied input tax credits from day one; the car hire industry will. People who hire computers will not be denied input tax credits; the car hire industry will. I do not see how this, as a transitional rule, is equitable or how it will serve an overall objective of not disrupting the manufacture and sale of motor vehicles. The point I think is worth making is that the car hire industry substantially purchases its vehicles from Australian manufacturers. I thank the senators for their time. If there are any questions, we are open to them.

CHAIR—Thrifty is owned by Mitsubishi, isn't it?

Mr Tafft—That is right.

CHAIR—It is a pity the South Australian senator is missing, but I am sure we will have a chance to impress that upon him. You are not putting to us any views about the package, as such. Do I understand that you are neutral on that? As far as an organisation is concerned, it is this issue that you would want to direct our attention to if the package were to go ahead?

Mr Tafft—Yes.

Mr Emanouel—Absolutely.

Senator CONROY—If you lease a vehicle on, say, 30 June 2000 before the introduction date and the value of it is \$30,000, at the end of the lease in the post GST regime the residual amount will be \$20,000; then you sell the car for \$25,000. Is GST payable on the \$5,000 or the \$25,000? I did not quite follow all of that discussion earlier. I am not sure whether there will be a concession or not or whether I am completely on the wrong train.

Mr Shields—I think it is viewed that it is payable on the full \$25,000.

Senator CONROY—Is that consistent with what Senator Gibson believed or did he believe it will be on only the \$5,000? I am just trying to get information; it was a bit technical for me.

Mr Tafft—I think you may have been out of the room when the discussion continued, Senator Conroy.

Senator CONROY—I was hiding.

Mr Tafft—The point we made before was that the provisions associated with the margin approach to second-hand goods are predominantly aimed at people who are not registered for GST purposes, and that the ordinary result for a registered person, as are these businesses, is that GST is payable on the sale of the second-hand good. The basis for that, in policy, is that on acquisition of that item the business will have been entitled to a full input tax credit. So, for most businesses like that, it is a wash and they are not too fussed, and the purchaser will be entitled to a credit as well. If that purchaser happened to be a second-hand car operation, they would be entitled to a notional input tax credit, which means the margin system works.

Senator CONROY—So you think it is the full 25,000, rather than the \$5,000?

Mr Tafft—Yes.

Senator CONROY—Are you starting to build into the leases now? If you are unsuccessful, say, in the next month or so, are you preparing to build into your lease costs now?

Mr Tafft—I will just clarify the situation: the leases are, for this industry, daily. So, on the leases I think you are referring to, this industry acquires its vehicles principally via two methods: either purchase the vehicle outright and take the risk on its value at the end of the

40,000 kilometres or 10 or 12 months or however long it takes to get to that point, or lease it—

Senator CONROY—I probably meant your daily lease rates. What I am asking is: are you starting to put up your costs to your consumers because of this potential or, if you are unsuccessful down the track, once the legislation is passed, are you going to take these losses? Presumably you have got to start recouping them at the earliest opportunity.

Mr Bowyer—Yes, it is most likely we will have to increase and pass that cost across to the consumer. Competitive forces obviously come into play wherever that is the case. I might add that my responsibilities also cover the car leasing side where we actually lease long term—three or four years—to customers as well. We, in our business, have actually adjusted our pricing since October last year. So, yes, there have been increased costs to the consumer because those cars are going to be disposed of in three or four years time.

Senator CONROY—You actually prepared for it from the day ANTS was released?

Mr Bowyer—Correct. That is similar to—

Senator CONROY—And if we defeat the legislation in the Senate?

Mr Bowyer—Then clearly we have to adjust our pricing to reflect that change.

Senator CONROY—What about the people who have already had to rent a—

Mr Bowyer—Then we have to review our position with our customers, knowing that we have charged them a high rate.

Senator CONROY—So you would consider refunding it back to your customers?

Mr Bowyer—It is something that would be under review, yes.

Mr Williamson—I would like to add something to that. That was the kind of point I was trying to make before, that the industry is so fragmented. If we try to do this—and we are facing these cost increases now—we will have to go to the customers and say, ‘There is a GST implication.’ They will reply, ‘Hang on. Car costs are going to come down,’ and we will say, ‘Sorry, we are faced with a huge transitional cost; we need to recover that now.’ Then they will say, ‘The GST doesn’t even come in until July 2000.’

Senator CONROY—The insurance companies were before us yesterday with exactly the same problem in that they are looking, right now, at having to put their insurance costs up on the same basis, to deal with transitional issues afterwards.

Mr Tafft—I think the difference for this group is that the timing is so tight in that they are holding vehicles for 10 to 12 months and then selling them, whereas for most of the car leasing industry, you are talking three, to four, to five-year leases and you can be a bit more ordered about the estimates on decreased residual values. We are already seeing evidence of

that in longer-term car lease rates. In the very short-term market, I do not believe it is fair to say that we have seen any sort of increase.

Senator CONROY—If the legislation passes unamended by June, you would then have to start looking at even those short-term—the position would then have to start to adjust?

Mr Tafft—You would have to consider it.

Senator CONROY—It has already happened.

Mr Tafft—It has happened in relation to longer-term leases.

Mr Williamson—That is not car rental.

Mr Bowyer—The issue is also that we buy our cars from the manufacturers, and a number of the arrangements are that the manufacturers buy those vehicles back from us after 12 months or whatever period we determine. They also have to place an assessment on that risk as well; therefore they are looking at the same issues as we are concerning transitional arrangements where we might buy a car in July this year and that car is then sold into July of 2000. Adjustment has to take place there.

Senator CONROY—So, if you were to sell that one pre GST, even though you might make an adjustment now, you would have a potential gain by accident. Because your decision may have been that you were going to keep it for two years and take it through into the post GST period but then you might end up selling it in the pre GST period instead. That must be a nightmare for your computer system.

Mr Bowyer—Yes, it is.

Senator CONROY—Are you enjoying trying to do the Y2K bug and this at the same time?

Mr Bowyer—It is very challenging.

CHAIR—I will hand over to Senator Gibson but, on the way through, as the call passes me, I will just ask one question: is Dasfleet in the same situation as you are?

Senator FERGUSON—There is no Dasfleet.

CHAIR—Who do I hire my car from then?

Mr Tafft—Dasfleet have been bought by National Rent-a-Car.

Mr Emanouel—Which is an American player which has just come in.

CHAIR—So they are in the same position?

Mr Emanouel—Yes. All the car rental companies are in the same position.

CHAIR—All of us are customers of yours at one stage or another.

Senator GIBSON—Back on the general issue of the government's ANTS package, are your firms—and are you individually—in favour of tax reform for Australia, for the longer term. You have highlighted the transition problem but, for the long term, are your companies in favour of tax reform?

Mr Bowyer—Speaking for Hertz: absolutely. The administration we have to go through to comply is fairly extensive, as are the number of processes. The resources we have to put in place to comply are costing us a considerable amount of money, and we fully support the tax reform that is likely to take place in the long term.

Senator GIBSON—Is most of that administrative problem that you are concerned about to do with the state taxes?

Mr Bowyer—No, it is concerned with federal taxes as well. I look at areas concerning FBT compliance, and in those other areas there is a huge amount of administration that we are required to do. I would personally be all in favour of simplifying the whole process.

Senator GIBSON—What proportion of your hiring business, in aggregate, would be hired to business? Are we talking half or two-thirds?

Mr Williamson—It would vary by company, depending on what sector they are targeting, but 50 per cent would be reasonable for our sorts of companies, I think. Do you agree, James?

Mr Bowyer—Yes. I would say it would split fifty-fifty between leisure and commercial for us as well.

Senator GIBSON—So, even with the transition problem you are facing with regard to business hire, the GST involved there is a credit for the businesses doing the deal, so it is not such a serious problem for them.

Mr Tafft—In terms of charging GST on the hire of a vehicle, if it is a business consumer you would expect that, with the exception of the finance sector, there would be very little negativity to charging GST. This industry does not have any quibble with that, but the concerns relate to paying GST on the acquisition of a vehicle and not getting an input tax credit. That tax must then be reflected in rates—but in the higher rate—and that is not deductible to the business user of such a service. So there is quite clearly an element of double tax.

Senator GIBSON—I understand that, but it is no different to what you are doing today, is it?

Mr Tafft—No. And on that point, in the longer term the industry is a beneficiary of the transition away from carrying sales tax on every acquisition of a vehicle, in that in two or three years from now the fleets will be held tax free—at least at the federal level. The state tax on motor vehicle registration appears likely to remain, so that is a continuing problem.

Mr Williamson—Our stance on that would also be that we still see this transitional issue as a permanent difference. It will go away. We will pay this. If it is not changed, we will be up for significant costs, and the car rental industry being as competitive as it is, you can bet that the prices will come down. It will not be the car rental industry holding it afterwards, it will be the price passed on to the consumer that comes down with the GST later on.

Senator GIBSON—I expect that. Thank you.

Senator FERGUSON—Obviously you are aware that the government early on recognised the unique situation of the motor vehicle industry in Australia, which is why special transitional arrangements were put in place in the first place. In doing so, we had to keep in mind the effect on motor car makers and car dealers in Australia, and on those who use them, whether they be private consumers or yourselves. That is why there is this unique transitional arrangement with motor vehicles which does not apply to any other sector.

Mr Tafft—Yes, we understand that. However, in that process, it would appear that this industry was not consulted, in relation to its particular and very tightly time framed consequences.

Senator FERGUSON—Even during the transition period—of three years, I think it is, in full—real prices are going to be coming down in that second and third year, aren't they. So, for car companies themselves, with real prices coming down, there must be some benefit to your company?

Mr Tafft—If I could ask you to enlighten me: in what sense are real prices coming down?

Senator FERGUSON—Because of the effect of the sales tax being removed over a period of time and being replaced by a GST—which is a business input cost for you—the real prices of vehicles will be gradually coming down.

Mr Tafft—Yes. As we have said before, ultimately the industry will be holding vehicles on a tax free basis, over the longer term. Our main concern is this very tight period for pre GST vehicles being sold into the post GST environment, and the denial of input tax credits over the first two years in cases where the full output is subject to GST.

Senator FERGUSON—Or half the second year.

Mr Tafft—Half in the second year. And other hire industry players, for large capital items, business items, are not having this denied to them.

Senator FERGUSON—But, in order to keep car dealers in business and car makers with some semblance of a continuation of sales, the proposal that you put forward to wind down the sales tax—I think it was to 15 per cent?

Mr Tafft—For this industry alone.

Senator FERGUSON—Wouldn't that lead to exactly the same transitional problem—that is, companies or other people would delay purchase, in anticipation of cuts later on? That is what we are concerned about in having transitional arrangements.

Mr Tafft—For this industry, the transitional arrangements are working in the opposite way to the one that was intended: they are actually encouraging this industry to hold off purchasing. The industry is being encouraged to hold off purchasing in three separate bits.

Senator FERGUSON—But, if we wind down sales tax, and they know that there are bigger cuts still coming later on, don't you think that will have the same effect?

Mr Tafft—No, I do not. I believe that, if you bring down sales tax for this industry, you will maintain a purchasing pattern, and if you allow input tax credits up-front from day one for this industry you will maintain constant purchasing. There will be no incentive for these fleets to be fleeted down.

Senator FERGUSON—Have you done any examination of the cost to revenue of decreasing that immediately to 15 per cent?

Mr Tafft—We have done that in the paper that has been provided today.

Senator FERGUSON—I am sorry, yes, I have got the figures here.

Mr Tafft—We think it is actually going to be revenue positive to reduce the rate for this industry. If it is a correct belief that the industry is likely to defer purchasing of vehicles to avoid this problem of off-loading vehicles into the post GST market, then reducing the sales tax rate encourages them to keep purchasing. That is revenue positive.

Senator FERGUSON—Basically, we have got a situation where you have concerns about the transitional arrangements, but as a general rule your industry has no doubts at all about the long-term effects, and in the end you are unequivocally better off in the long term. Is that right?

Senator CONROY—Except they all close down in the short term.

Senator FERGUSON—It is a pity Senator Conroy does not close down occasionally. We have been waiting for 15 days. In the long term what you are saying is that, because of a drop in car prices and for a whole range of other reasons, for your businesses this package makes you unequivocally better off?

Mr Tafft—It is certainly fair to say that the long-term issues are not a concern to this group here today. The concerns are entirely focused on this tight transitional area.

Senator FERGUSON—I would have thought long-term concerns would be of interest to your industry?

Mr Tafft—I am saying that there are no long-term concerns associated with this package. Perhaps we should talk to this. I am saying that, for this industry, the long-term

position is better than under the previous taxation regime. This was quite clearly one of the most heavily input taxed industries in the country under the existing—

Senator CONROY—He is trying to prompt you to endorse the package, if I can save time for you.

Senator FERGUSON—Senator Conroy left the room. The package has already been endorsed, Senator Conroy. You should have stayed in here.

Senator CONROY—You wanted another endorsement.

Mr Emanouel—We have no argument with the long-term position of the GST. What we are coming to you about is this transitional period. We have a lot of franchise members throughout all our companies, and a lot of them are small businesses, and this transitional period will impact on cashflows and buying trends that they have been doing for a number of years. We are trying to minimise that impact by asking for relief in this year's sales tax in June. That would allow our small business people to continue buying cars as they have been for a number of years.

Senator FERGUSON—You have made us aware of your concerns, and we note them.

Mr Emanouel—Thank you.

CHAIR—At the bottom of page 4 of your document is the figure \$68.5 million. Is that the full taxation revenue implication—what we might call the cost to revenue?

Mr Tafft—Yes. If the industry slows down its purchasing of vehicles by one-third.

CHAIR—Yes. So that would be \$68.5 million. In your discussions with the tax office, was there any acknowledgment that there was no intention to impose this sort of transitional cost on you? There does not seem to be any support anywhere in any of the documentation for the idea that you are supposed to bear this cost.

Mr Tafft—No. In our discussions, there has not been an express acknowledgment that this was an intended or an unintended consequence. There has been mention of the desire, in terms of these transitional provisions, to assist the car manufacturing and distribution industry generally and to avoid droughts and peaks.

CHAIR—I suppose, if you are talking to the tax office, you are not talking to the designer of the system, you are talking to the agency that has the task of implementing what is done in legislation. They may not be in a position to know whether it was an intended or unintended consequence. In my mental trawl through the literature the government has produced on this matter, there is nothing to suggest that this was meant to be.

Mr Tafft—No. That is true.

CHAIR—So it is a reasonable assumption—and I think this is what you are putting—that this is an unintended consequence not thought of at the time and, thus, not figured into

the costs. We sometimes hear on this committee that, where costs are going to be incurred by virtue of the tax package, tax cuts are meant to compensate, so that the effect on taxpayers will be neutral or, in some cases, it is argued, beneficial. If this was an unintended consequence, then the government hasn't counted this revenue, so it should be simple for the government to agree to your point, shouldn't it?

Mr Emanouel—We hope so.

Mr Tafft—In principle, yes.

CHAIR—One of the arguments is that, if you fiddle with the package, you knock all things out of whack and it all goes haywire. But, if they haven't counted on this, then it is not in their sums and they could give it back to you and resolve it. To me, at least, that would seem to be a logical point.

Mr Tafft—That is the point that we are making.

CHAIR—Yes. But, if they don't and you pass it on to your customers, then the compensation they receive through tax cuts does not account for this, and that is an extra cost that they have to bear. That would also seem logical, wouldn't it?

Mr Tafft—Yes. That is if they pass it on.

CHAIR—If you pass it on.

Mr Tafft—Yes.

CHAIR—If you bear it yourself and do not pass it on to your customers, that is a cost your shareholders have to put up with.

Mr Tafft—Or a cost that the franchisees, as business operators have to bear.

CHAIR—Someone in the system gets slugged?

Mr Tafft—Yes.

CHAIR—And it is a question of who will be the unlucky person standing when the music stops. But this is, as you have said, a competitive industry. Because it is competitive, I imagine you would all be struggling to not charge the consumer and to unload the cost somewhere else in the chain?

Mr Tafft—Yes. A comment I hear a lot is, if one player moves up in a very competitive industry and the others do not, then the one that moved up will rapidly come back down again. It is lowest common denominator thinking.

CHAIR—A competitive market is something that we in parliament talk about a lot and like to see happen, in order to ensure efficiency. If you are not given relief, where is it likely

that these costs would be passed on to? Who would have to absorb them: your shareholders, your franchisees, your customers? What is the likely outcome?

Mr Williamson—A combination of them. Our franchisees are currently coming to us with major concerns over this. As we said, in the competitive market it is very hard to go out there to the industry and say, ‘This is what is happening,’ and educate the whole industry that they need to be lifting prices now.

What happens is we have some players who do not realise that these costs are out there until it gets too late. In order to maintain your position in the market, you set prices. If you try to lift prices, you end up having to go back down or you watch yourself go backwards in the market.

We see this increase in the pricing over a transitional period as a blip in the system that we should not have to be trying to deal with. We think our response will be to try to pass on what we can to the customers, but we do not think that will happen across the board, because some of the players will not realise the implications and won’t do it. We think we will also take some hits to our profitability and to our franchisees’ profitability. The small business players will also get hit. There will be some companies that fall over as a natural result. By the by, we have had increases due to the privatisation of the airports, which is fine, but we have still got to come to terms with that. That has increased our pricing. Trying to get everyone to go, so that it makes sense is a different issue. But that is the next stage.

The third one is to try to take cost actions, which is what we are talking about, where we would be looking at things like slowing down the cycling of our cars and ways to alleviate some of these costs. Those are three areas we would look at.

CHAIR—One of the fastest growing areas of litigation in Australia is conflict between franchisors and franchisees. That is going through the roof at a million miles an hour. If you were passing on these costs to your franchise holders, would you have a reasonable expectation that some may wish to raise legal contests with you about an unfair exercise of market power by you in passing these costs on?

Mr Tafft—It might be worth clarifying how this works. It is not as if the Avises of this world buy all the vehicles and pass on the cost to the franchisees. The franchisees, in effect, deal with these issues directly. Correct me if I am wrong, Graeme, but I do not think that a dispute between the franchisor and the franchisee would arise here.

Mr Williamson—They would be in the same boat as us, where they own a percentage of their fleet and they lease a percentage. If the manufacturers put the lease prices up or if they are left with cars, that is—

CHAIR—So you are really talking for them as well today?

Mr Williamson—Yes, we are.

Mr Bowyer—The other issue is that, from a customer perception point of view, with our unique position here, with the transitional relations not being in place, we have to explain to

our customers that the price is actually going to go up pre GST, because of this equation. Then, potentially, when GST comes in and in the long term, one would expect those prices to come down. That is the issue we face. We get this sort of blip that occurs, and then eventually we get back to normal. It is a matter of how long it takes to get back to normal.

CHAIR—The point about your industry is that this is a tough way to make a buck. It is intensely competitive, and if you push \$68.5 million worth of extra costs into the system, you are going to shake a lot of operators out or you are going to drive a few franchisees away, and the sum total of the industry will contract a bit. Do you have any figures on what that contraction might look like?

Mr Tafft—At this stage, no.

CHAIR—Do any of you have an intelligent estimate about it?

Mr Williamson—As we said, it is really hard to make estimates from the information that is available. Some companies might disappear over that time. That is sort of what we are talking about: there is a disruption to business that does not need to happen. We are talking about some small players running their own business who are just going to go out of business. Down the track, once the costs do come down, I think we will start getting some players back in, as the prices decrease. That, as I said, will stop any chance of recovering this cost hit that we will take, and prices will be forced down because there will be new entrants to the market again at that stage.

CHAIR—You will lose some of your franchisees as well, will you not?

Mr Williamson—Absolutely.

Mr Bowyer—Half way down page 4 it talks about the total additional cost to our business. The figure of \$3,182 is highlighted there. We look at this business on a daily rate basis. If we divide that by 365 days, what that is essentially saying is that our costs are going to go up by between \$9 and \$10 a day somewhere along the line. If you take an average daily rate for a particular car, such as a Falcon or Commodore—maybe \$60 to \$65—you then see the percentage increase that is being faced that would have to be passed onto the customer, if it was a full pass-on of the cost.

Mr Williamson—We run the cars on the assumption of a 75 per cent utilisation rate. You have to mark it up with that as well. So we would need to recover up to \$13, \$14 or \$15.

Senator FERGUSON—Are you aware of the recommendations in the Vos report?

Mr Tafft—Yes.

Senator FERGUSON—The Vos report considered nine options, taking into account the least overall disruption to the motor vehicle industry during the transitional phase, and the government eventually chose the recommendation that Vos decided would cause the least

disruption to the motor vehicle industry, over all the players in the industry. Would you have preferred any of the other eight options?

Mr Tafft—In relation to this particular group, no. I think this is a sensible solution. I understand David's thinking, and I spoke to David at some length about this problem. But his thinking is much broader than this particular problem area. This is a unique group, in terms of its reliance on motor vehicles, and it needs to be looked at in a way which is much more similar to the way equipment hire enterprises are looked at, instead of being looked at as part of the group of enterprises which manufacture and distribute motor vehicles.

Senator FERGUSON—So the government made the right decision in choosing the right option, but you think there are some refinements that need to be made?

Mr Tafft—I still have concerns, but that is not my role here today.

Senator FERGUSON—I understand. Thank you.

CHAIR—Are we all done? Thank you very much for coming along today, providing the evidence that you have and aiding our inquiry in the manner that you have done.

Mr Tafft—Thank you.

Proceedings suspended from 12.44 p.m. to 1.29 p.m.

CLARE, Mr Ross William, Principal Researcher, Association of Superannuation Funds of Australia

VILGAN, Ms Rosemary Anne, Federal President, Association of Superannuation Funds of Australia

CHAIR—I welcome representatives of the Association of Superannuation Funds of Australia. The procedure we have been adopting is to invite you to address us briefly on your written submission and then be available to answer questions. Over to you, Ms Vilgan.

Ms Vilgan—Thank you, Senator, and thank you for the opportunity to present today. ASFA's membership represents about 600 superannuation funds and organisations in Australia, and that represents some 80 per cent of the superannuation industry in Australia and, therefore, close to \$300 billion. As well as being responsible for the management of this very large sum of money, the actual business of superannuation and investment management is a large business in itself. Fund administration probably costs about \$2 billion a year, and there is a similar amount in the investment management activities. So ASFA is obviously interested in the impact of GST not only in its implications for superannuation but also on the operations of these large businesses.

I would like to point out at the start that ASFA has not taken a position on whether it is for or against a GST. Our constituent members come from many sectors and it is not something we have been able to have a collective opinion on. I think individual members have been expressing their own views on that point. However, that said, we obviously are interested in the application of any new or even existing tax, so we have some specific points on the GST and tax legislation to ensure it remains simple and equitable, and supportive of long-term savings and superannuation.

Superannuation forms part of the financial sector, and ASFA is supportive of an input taxing of financial services and that financial services should be included in the GST base as far as possible. As no doubt you are all aware, most countries have gone down this path of input taxing simply because it is very difficult to come up with an alternative operation. Many charges in our industry are on the basis of a margin—anything that is effectively a percentage of assets, a fee—so it is very hard to isolate the component that relates to the interest earned or the charge made. So input taxing is something ASFA supports. It is obviously driven by the principles of efficiency but also practicality.

We have had some of our member organisations look at the possible cost impact of a GST. It is in the order of four to six per cent. The larger purchasers of outside supplies, if you like—some funds outsource an awful lot of their business—would pay towards the higher, the six-ish per cent, end. Some funds are run effectively by voluntary trustees and outsource basically all their operations, whereas others are very retail, with large public offerings in their own right, and all their costs can be in-house. So there is a wide range of super funds in operation.

Having said that, there are a couple of issues that do come to mind. There is a definition of what is the management of a superannuation fund that probably needs some clarity. That has not been defined at all really at this stage. We would aim to have a competitive neutral

position so that funds that choose to outsource rather than do their operations in-house are treated no differently. There is potential for this to occur currently because of the input taxing regime, where you cannot effectively pass on the costs of the GST if you outsource. In that area we would like some competitive neutrality so that it is not an issue for funds there. The other area that is of some interest is another definitional point, in the registration of superannuation funds for the purpose of a GST operation. There may just be some drafting issues in the legislation on that point.

An area of probably major concern to the membership is that the introduction of a GST is accompanied by a reduction in personal income tax rates. The interaction of lower personal income tax rates with the superannuation system has got the potential to erode the concessional nature of super, reduce its attractiveness and probably increase retirement income costs in the future. The government's own documents indicate that some 80 per cent of taxpayers will face a marginal tax rate of 30 per cent or less. The effective marginal rate for many people on superannuation can approach 28 per cent, so there is going to be very little incentive for these people to have superannuation savings.

The other area I would like to particularly draw to the committee's attention is the fact that superannuation is probably the only form of savings for many Australians; it is the only thing they can afford. Whilst the package could have the potential to increase savings in the economy—and that is not something I am debating at this point—for many in the work force this is the only savings they have. So the actual treatment of superannuation as the only guaranteed long-term form of savings for an awful lot of the population and its relative attractiveness under a lower income tax rate regime are things we would like to draw to the committee's attention. After those opening points, I am happy to answer questions from the committee. Thank you.

CHAIR—Thank you, Ms Vilgan. Is it your intention to ask Mr Clare to supplement, or shall we go straight to questions?

Ms Vilgan—Just questions.

CHAIR—Senator Ferguson.

Senator FERGUSON—I am happy to cede at this stage to Senator Conroy, knowing his interest in superannuation.

Senator CONROY—You talked about the competitive neutral question. The credit unions put to us a grouping situation as a possible solution for the outsourcing question, a la Canada, I believe. Have you any ideas on that?

Mr Clare—I think that grouping suggestion is more viable for the credit unions, which use one central processing organisation, as I understand it. For superannuation administration there is actually a range of suppliers. For instance, a subsidiary of the AMP corporation undertakes administration functions for a range of retail products, corporates and, I think, some industry funds. The grouping provisions in those sorts of circumstances would be challenging. It is a rather different market structure for superannuation. We have more players in administration. In some instances you may be able to get some commonality of

interest amongst users in their relationship with the provider, but in many cases that will be much more diverse in the grouping. We would encourage movement to facilitate that, especially for the credit unions and others. It may help some of our problem, but not very much of it.

Senator CONROY—A number of the mortgage originators were also here yesterday and argued for a similar type of arrangement in terms of avoiding having to set up artificial arrangements which, as I think you described it, would be challenging. Do you have a solution? I think you saw that there was a way to do this.

Mr Clare—Yes—I think through changing the definition of the management of a superannuation fund to include such management undertaken by another entity than the fund itself.

Senator CONROY—So that would be an outsourced entity?

Mr Clare—Yes.

Senator CONROY—So AMP, in that sense, would then be deemed to be part of your management of the fund.

Mr Clare—Yes—in those administration activities. I do not think the aim would be to have every activity that may be capable of moving but performed in-house.

Senator CONROY—I was going to come to that. If it is challenging from the grouping scenario, you would need to be fairly definitive about which functions that AMP provided were a part of that. What would be the breakdown, do you think? What would be the sorts of things that would be put on the good side of the column as opposed to not included?

Mr Clare—I think that administration of the fund in administration of member accounts, processing of contributions, record keeping, payment of benefits, dealing with customer inquiries, those sorts of areas, would be the core area. The legislation as it stands has a definition of services which are not financial supplies. We would not be seeking to have general accounting or legal or the other—

Senator CONROY—Investment advice and things like that.

Mr Clare—That is right. We would not be seeing those as being a road for the approach we are adopting. It is really that we think the core area needs to be addressed, rather than opening up methods of undue advantage for superannuation funds.

Senator CONROY—I should indicate for the record that I have a potential conflict of interest, being a member of the TWU super fund, which is a member of ASFA. How would investment choice fall within that situation? Would that still be deemed to be an administrative function?

Ms Vilgan—In terms of the actual costs involved, it would, because the costs involved for a superannuation fund are in people choosing between investments and effecting that

choice. So that is just one of the administrative functions, and one many super funds do now. That is where the costs would come in.

Senator CONROY—Say I am a member of the TWU fund and I decide I want to change my portfolio allocation. I send my form in to AMP, if it is AMP that is doing mine—I think it is IFS, actually, at the moment doing TWU, but say AMP—and that part is not GSTable. But if I sought some advice from the fund, that would be GSTable, depending on where it came from?

Ms Vilgan—My understanding is that if there were a specific charge for advice, then it would be. It is trying to differentiate where there is a specific charge that can be identified, such as an accounting charge or an advice charge, versus where the margins operate.

Senator CONROY—You mentioned six to eight per cent of cost, was it?

Ms Vilgan—Four to six.

Senator CONROY—How much is that in dollars?

Ms Vilgan—It is not a lot. If you say an awful lot of the superannuation funds, say the industry funds—perhaps like the TWU, the one you are mentioning—charge up to a dollar a week, so \$52 a year, then a four per cent increase is a couple of dollars a year. We are not saying it is a big cost impact at all.

Senator CONROY—It is less than the surcharge, then?

Mr Clare—Actually not, I think. If you take an administration turnover of around \$2 billion, and apply the four to six—

Ms Vilgan—It is close.

Mr Clare—Yes, it is close, but it will vary. Some funds are more expensive to administer and the impact on the members or—

Senator CONROY—Only those run by Senator Ferguson, you are saying?

Senator FERGUSON—I will resist taking the bait, because I have had 16 days of Senator Conroy and I am getting quite used to it.

CHAIR—Please resist.

Senator FERGUSON—And it is Friday. Does ASFA have a position on the tax reform package—of support or opposition?

Ms Vilgan—No.

Senator FERGUSON—No position at all?

Ms Vilgan—No. As I said, we have differing views amongst the membership, so we did not come to a collective view.

Senator FERGUSON—To a conclusion?

Ms Vilgan—No.

Senator FERGUSON—Is it not a fact that superannuation still receives concessional treatment, even if you take into account the new lower personal taxes?

Ms Vilgan—It is actually debatable. In our submission we referred to work done by Access Economics. It really depends on which method you want to use to value superannuation. In terms of the current method, Treasury estimates say, ‘We would have got the marginal tax rate on the investment earnings and we have not, so that is the cost of the concession.’ That is the Treasury estimate’s model.

It takes no account, though, of the future savings to government—the fact that there will be future benefits paid—and the fact that, if superannuation were not concessional, not too many people would bother locking their money up. So there are valid reasons why the Treasury figures are one form but there are many other forms of valuing superannuation. In fact, I indicated that superannuation would be taxed up to approximately 28 per cent and this government is seeking to bring down marginal tax rates well below that. So there can be many low income workers, part-time workers, whom you would be overtaxing in superannuation.

Senator FERGUSON—I distinctly remember that, at the time of the debate on the surcharge, ASFA’s position was that voluntary contributions would dry up. I know you would not cry wolf but, as I understand it, the ISC reported in its March 1998 bulletin that it estimated that aggregate employer contributions would be \$20.7 billion for 1997-98, of which \$14.7 billion was estimated to be superannuation guarantee contributions—that is an increase of nine per cent on the previous year’s figure—and, although two-thirds of that growth could be described as organic, from either increased employment or increases in workers’ earnings, the evidence so far is that voluntary superannuation contributions have continued to grow despite the surcharge.

Ms Vilgan—ASFA has released a document also, probably in the last month—which Senator Kemp certainly has—which refers to the growth in voluntary superannuation or the numbers in voluntary superannuation going into contributions. There are many underlying causes, and in fact a lot of it is retirement income planning techniques. I am actually a trustee of a fund that offers financial planning advice, and I know that because of initiatives from your government—very good initiatives like the spouse contributions—an awful lot of money gets cashed and put back in. So, in trying to analyse whether voluntary super has gone up or not, I think there are many causes.

In the document we put up to Senator Kemp we indicated that the raw numbers and the underlying causes are quite different. In fact, there is a fair bit of churning going on in the system—people cashing money in, to split it into spouse accounts as they are now allowed to do, but also to take advantage of better social security treatment. The numbers from the ISC

bulletin, on their face value, I will not dispute, but I do not think it can be said that people are still pushing a lot of money into superannuation.

Senator CONROY—The question is: what would the growth have been if it were not for that?

Senator FERGUSON—Mr Chairman, I listened very quietly to Senator Conroy's questions and I would appreciate the same courtesy.

Senator CONROY—Not a chance.

CHAIR—Order! Proceed, Senator Ferguson.

Senator FERGUSON—The government has been redressing the situation of the previous Labor government, which actually took away the tax deductibility of the \$3,000 a year contribution by workers. That had a greater impact on superannuation contributions than anything else in my time in the industry, and caused the cancellation of a lot of contracts, as you may or may not remember. In fact, the spouse rebate only helps to redress some of the effect on family contributions that took place because of the taking away of that tax deductibility.

Ms Vilgan—Yes, ASFA is fully supportive of the measures the government has taken to further spread superannuation and to allow spouses to contribute. They are initiatives that we have been very supportive of, but I was just making the point that the voluntary numbers are in part caused by changes from these other policies.

Senator FERGUSON—It is a historical fact that, as the marginal rates of tax have come down, there have been changes. I was in the industry when there was a 60 per cent top rate, and it was not very hard to convince people that investment in superannuation was worth while when it was 60 per cent. When it came to 48 per cent, people said, 'This is going to knock the industry around because there is no longer such a tax advantage,' and it has come down even further. I think you make a recommendation in your submission, asking for some reduction in the contributions taxes and other taxes that were put in place by the previous government and have been added to by this government.

Ms Vilgan—Yes. ASFA has had a number of documents out for a long time saying that the entire totality of superannuation taxes is, firstly, too complicated. Revenue needs aside, the fact that there is a litany of taxes on superannuation just makes it hard for people to understand whether or not it is worth their putting in money.

Effectively, we would like to move to the concept where superannuation is deferred income. You are actually putting some of your income away for retirement and you are putting the tax on that away to be paid when you get the income out. I want it to be quite clear that we are not seeking enormous concessions. We believe that tax should be paid—and, in fact, many of the people currently retired with big super benefits have paid very little tax—but tax should, effectively, be paid at the time the benefit is received. It could come close to being paid at marginal income tax rates, with benefits being taken in the form of

pensions and marginal income tax rates, effectively, applying. So the pay is set aside for the future and the tax is paid when the income is drawn.

We are saying that, quite apart from the revenue needs of this government or any other government, there are just too many taxes on superannuation. It is too hard for people to understand. So we would like—at some stage; obviously it is not part of this review—to try to simplify the system and maybe move towards the expenditure tax, the tax at the end, when you can get perfect equity. Anybody who gets a lot of money out pays a lot of tax. We do not know that that equity is there right now; that is our problem. There are so many tax treatments applying that it is very difficult to work out for an individual.

Senator FERGUSON—One of the problems is that, once a revenue measure is brought in—as it was back in the 1980s, when first the lump sum tax was brought in when previously there was none and then, because the government of the day decided they wanted to get some money up front and not wait for people to collect, they changed that to a tax that was paid as the money was going in—and once that has become part of general revenue, if you wish to change the taxes you have to work out where the revenue is going to be replaced and by what measure it is going to be replaced. It is now a considerable part of government revenue. Have you got any suggestions as to where, if we were to change the taxation arrangements for superannuation, that revenue should be found?

Ms Vilgan—There have been quite a number of proposals put forward. A number of years ago, Vince FitzGerald talked about a withholding tax arrangement by which you could still get the same net effect. The Institute of Actuaries is presently working on a tax modelling arrangement that would not affect government revenue. There is also probably a potential to change the tax rates on 20-year-olds. You do not get a lot of tax from 20-year-olds and you could start a new system with young people.

We are not saying that this government does not need the revenue—by all means, it is general revenue—but I think the industry would be more than willing to work with ways by which we could deliver simplicity in it all, and some moves towards a long-end benefit taxation, increasing the benefit taxes to the stage where you can get perfect equity at the end. We would be very happy to work within your revenue constraints.

Senator FERGUSON—It is quite important. Supposedly, this is a revenue neutral package anyway. If we are going to look at changing the nature of taxation on retirement benefits, then there have to be alternative proposals to replace that revenue from somewhere else.

Ms Vilgan—Yes.

Senator FERGUSON—I do not think I have any more questions, Mr Chairman.

CHAIR—Ms Vilgan, what exactly are you asking the Senate to do?

Ms Vilgan—We wanted to draw your attention to the points I outlined in my opening remarks—that is, we are in favour of input taxing; we do not see that there is another alternative. We would like competitive neutrality, because super funds do outsource different

amounts. We would like to draw to the committee's attention the end effects on superannuation, in that it is the only long-term savings of a large proportion of the population and we do not want them to be treated worse—through, probably, quite admirable reductions in marginal tax rates. We do not want to see poor effects on the low income workers in their only savings vehicle. They are probably the three main issues.

CHAIR—But are you asking us to amend the legislation to reflect these concerns?

Ms Vilgan—Superannuation taxes are not part of the new tax system proposal, so we are not asking for it in this measure, obviously. But we would like the committee perhaps to consider recommending some sort of a future reform forum that—

Senator CONROY—Do you want us to move an amendment to change the definition of financial suppliers?

Ms Vilgan—Yes, in that part of it. What is management of superannuation funds is, in fact, not defined at all. So we would like some clarity there, to achieve a competitive neutrality position.

Senator CONROY—You would like an amendment in the Senate to clarify that?

Ms Vilgan—Yes.

CHAIR—So that I can understand this: have you put these views to the government?

Mr Clare—Yes. We have written to the Treasurer, back in December, concerning the management of the fund question and the outsourcing issue. There has also been contact with Treasury and also with the implementation group attached to the Treasurer's office.

Senator CONROY—Just a minor little thing!

Mr Clare—It is a matter that has been raised by us with the government. We are yet to hear whether our representations will bear fruit. We are hopeful, because of the logic of them. We would welcome the government, either through amendment to the legislation or through appropriate regulations, clarifying and bringing about the competitive neutrality we are seeking. It is certainly something that we have raised.

As you would have observed from the hearing yesterday, other parties in the financial sector have similar, but obviously different, circumstances. The principle is an important one. It is a finance sector issue because it only really comes in if you are input taxed, and financial suppliers and, I think, residential rents are the only components that are input taxed. In some ways it is a special treatment, but basically it arises because financial suppliers are treated differently from other things within the GST regime.

CHAIR—So you have written to the government and to Treasury. You have had some form of consultation. You have not yet got a reply. When do you expect to know the outcome of your representations?

Mr Clare—It is a bit difficult for me to say when the government might reply, but the expectation was that, if the government were to make changes, the next week or two would be the window of opportunity in terms of the legislation. I am not fully across the Senate timetable or the timetable for the bill.

CHAIR—We have to report by 19 April. I presume that on or about that date the government would want the bills to come on for debate. If you are expecting a reply to your representations in the next week and you get one, will you notify us as to whether all your concerns have now been met or whether there are matters of concern that you have and that you want us to reflect on to the Senate in our report.

Mr Clare—Yes, certainly.

Senator FERGUSON—Ms Vilgan, in regard to voluntary superannuation contribution, does ASFA have a view as to a rebate versus tax deductibility?

Ms Vilgan—A rebate obviously delivers to lower income earners more than a tax deduction would. In all our documentation we have said that we believe that there is a progressive tax system in Australia and we support it. So to the extent of rebate—

Senator FERGUSON—Fits into that.

Ms Vilgan—Yes. I am not sure we have an exact position on it; I do not know if we have considered it. But certainly we support a progressive tax system and the lower income earners—

Senator FERGUSON—And a rebate fits into a progressive tax system.

Ms Vilgan—Yes.

CHAIR—There being no further questions, I thank you very much for putting the views of the Association of Superannuation Funds to this inquiry and aiding us in our endeavour to report to the Senate on the new tax system.

[2.00 p.m.]

CURNOW, Bishop Andrew William, Chairman, Anglicare Australia

NEVILLE, Professor John Warwick, Anglicare Australia

CHAIR—I welcome the witnesses from Anglicare Australia. We do appreciate your making yourselves available at a time earlier than previously scheduled, and I would like to express our appreciation for that. The normal process is that we invite you to address your written submission and then be available to answer questions from the committee. I ask whoever is going to lead to introduce himself and his colleague.

Bishop Curnow—I am the Chairman of Anglicare Australia and Professor Neville is the economic adviser to Anglicare Australia. I want to begin by very quickly giving you a brief introduction to Anglicare Australia and then presenting to you some comments.

Anglicare Australia is a peak body representing 62 Anglican welfare agencies across Australia. They are in just about every part of the nation from southern Tasmania to the Northern Territory; from Western Australia to right along the east coast. So we believe we have a very good understanding of what is happening in many communities around Australia and the views of many people around Australia, particularly where people are concerned with people in need.

We want, particularly, to make a case this afternoon, to say why we are concerned about some aspects of the GST. We are not against the GST per se in its whole entity; we particularly are concerned about the imposition of the GST on food. We have a number of concerns in that area which I would like to present to you, and Professor Neville will speak to it as well.

CHAIR—When you say that you are not against the GST, does one assume from that that you are for it or that you are neutral?

Bishop Curnow—That is a very perceptive question, actually.

Senator FERGUSON—Or are there a variety of views amongst the bishops?

Bishop Curnow—I think it would be fair to say that there are a variety of views. There is a consensus that the taxation system needs reform; there is a diversity of views on whether or not the GST has all the answers. But, our membership is at a consensus point where we do see the GST on food as an issue that we want to take up.

There are a number of arguments I would present to you. Obviously, you have seen some of our material. We have a concern about the whole equity of the use of the GST on food. The Australian Bureau of Statistics calculates that the outlay on food is 30.3 per cent of income for Australian households in the lowest 20 per cent of incomes but only 6.1 per cent for those in the highest 20 per cent of incomes. In other words, I think we say in our documentation that the imposition of a GST on the poor in terms of food is four times greater than for people on high incomes. In fact, the figures that we now have suggest that it

is five times greater with regard to the effect. So we have a huge concern about that, and we are not convinced that the compensation packages the government talks about will, in the long term, seek to overcome or take account of this imposition.

We also believe that there are other ways in which the income that may be lost from taking the GST off food could be made up, and there are a number of ways that we have suggested. We are in fact not against a higher income tax on higher income people.

Another issue we are concerned with is the effect of the GST in terms of the FBT and compliance cost arrangements on the agencies themselves and the effect that this could have on services. One Anglicare aged care provider of accommodation services, which has 26 facilities in the greater Melbourne area amounting to 700 beds, estimates that the increased costs will result in a loss of 14.3 beds or 11.49 full-time jobs. This is where we, on the one hand, would agree with the government that there have been some abuses of the FBT system, although all our members support a 30 per cent cap on the total remuneration package and salary ceiling. But we believe that the way in which the GST and the compliance costs relating to it will impact is that it will have the effect that services will be affected. The result is that our organisations will have nothing else other than that they will have to reduce the service, and that will affect jobs as well as the people we are working with. I will stop at this point and let Professor Nevile take over.

Prof. Nevile—I am sure that in the economics profession there is agreement that taxing food has a very disastrous effect on the less well-off in our society. The only disagreement is whether it is better to not tax food or to tax food and compensate the less well-off. So the argument in the profession is really about whether compensation is likely to work.

Anglicare Australia's position is that it is very dangerous to rely on compensation, because the poor may easily miss out. There are very good and strong reasons for believing this. First of all, compensation packages are inherently fragile—that is, they are not likely to remain intact for very long. They require highly visible government expenditure, and in modern Western economies there is considerable pressure on the government to reduce expenditure as much as possible.

This in itself is likely to lead any government to allow inflation to erode the value of the compensation package. Compensation to the working poor is provided in the government's plan by income tax cuts. With inflation, these income tax cuts will be eroded through bracket creep. It is most unlikely that the government will index taxation. In fact I think you could say that there is a zero probability—the Fraser government tried it but did not like the results, and it did not last for very long—so the working poor are going to automatically get their compensation eroded through bracket creep.

In today's political climate the compensation to people on pensions and benefits may not be eroded so easily by inflation, but instead it may be vulnerable in another way. For example, Australian pensions are indexed to the CPI—that is a basic thing which I do not think any government would change—but there is an overriding condition that they will not fall below one-quarter of male average weekly ordinary time earnings. If pensions rise for this reason, this rise will absorb part or all of the compensation package. So the fragility of

compensation packages is the most important reason why we do not think compensation is the answer.

Secondly, even the original compensation package is likely to be inadequate. There is obviously pressure on the government—fiscal pressure, not political pressure—to make the compensation package as small as is politically feasible, and that means to restrict the coverage as much as possible. We can see these tendencies in the proposed compensation package. The figures that the government quotes have an inflation effect of the GST of 1.9 per cent. It is well known that this excludes tobacco—and I do not have any comment on that one way or the other; it is a separate argument—but it also includes the effect of a first home owner's subsidy which will be paid as part of the total package, if states will agree to pay this, which does have a significant effect on the size. It is hard to believe that pensioners who do not own their own home are likely to become first home owners, so the first home owner's package is not going to help them at all. If you add in these two, you get up to 2.5 per cent rather than 1.9 per cent.

Far more importantly than that the government, in deciding how much compensation is necessary, has worked on a method of calculation that assumes that everybody spends the same proportion of their income on all the different commodities, or goods, or services. Bishop Curnow has already pointed out that in our submission we said that the poor spend four times as much as the rich proportionately. That was a conservative estimate in the sense that I wanted to make quite sure we did not make a mistake the other way so that Mr Costello could say, 'You are wrong. It is not this; it is something less than that.'

The latest figure we have now seen, that somebody else has calculated, is more like five times as much than four times as much. Certainly, the poor spend a great deal more than the rich on food. Therefore, if tax on food is increased, it will affect the poor and the inflationary effect will be much greater on the poor than on the rich. This is just one of a number of examples. Replacing a wholesale sales tax with a GST will increase public transport prices, but reduce car prices—at least car prices on non-luxury cars. There are various examples one can give.

If you make corrections for all these differences in consumption patterns, the inflationary impact of a GST on low income people is about 3½ per cent. It varies, depending on the circumstances of the person: whether they are married or single; whether they have dependent children; whether they are in public housing, and so on. Three point five per cent is about the middle of the range. Of course, these calculations assume that no business anywhere takes advantage of the changeover to put its prices up somewhat. In fact, even despite Allan Fels, I think there will be some effect of this sort.

The compensation package is likely to be inadequate and there are some people who will not get any compensation. For example, the government has got some compensation—you may argue whether it is adequate—for self-funded retirees of pensionable age. Consider the case of a man who has been made redundant at, say, 55. He has got savings, or has got a redundancy payment, so he does have a small private income because of his capital. He is not eligible for anything—it used to be called unemployment benefits and now has a fancy name—because of this capital and his small income. He cannot get another job so he has to retire, in effect, but he does not get any compensation at all either for the effects of the GST

on his living costs or on the value of his savings on which he is basically living. That is just one example. Compensation packages are almost certainly going to omit a few people—or a large number of people. This is inevitable, because to make it so wide that nobody was possibly omitted, would be very expensive and therefore not feasible.

There is a third very good reason not to rely on compensation packages. The government has taken very seriously in its tax package the problem of what, in the profession, are called poverty traps. If you are a relatively poor person, say you get a fair amount of social security benefits and you are in the range where these are withdrawn as you get a higher income, then the combined effect of the increase in income tax that you pay because you are earning more and the withdrawal of the social security benefit can lead to—and in many cases does lead to—very high effective marginal tax rates. Eighty per cent is not uncommon and there are some cases of over 100 per cent. People in this income range keep a very small proportion of each additional dollar they earn because of the combined effect of extra income tax and the reduction in the income tested benefit that they receive.

One of the good points about the government's package is that it has tried to address this to some extent. The bigger the compensation package, the harder it is to remove this problem. If food is not subject to tax, the compensation package can be reduced. I think Anglicare is about the only group that have actually made this point, as far as I know, but it is a valid point. If you do not tax food, it is possible to reduce the compensation package. Therefore, the total cost of not taxing food will not be as great as the figure that is always quoted, which is just the tax revenue forgone. Additionally, it will make it easier to solve this poverty tax problem. That is only one reason. I would not like to just finish with that because I think the more important reasons are the fragility and inadequacy of any compensation package, and I think that is inevitable. Thank you.

CHAIR—I have gone through your submission, which raises a number of very interesting and quite useful matters for our consideration. What are you asking us to do?

Prof. Neville—We are asking you not to tax food—in technical terms, not to have input taxes on food or taxes on the output, or, in economic jargon, for it to be zero rated so that there is no GST on food. We believe that it is possible to separate food from restaurant meals. This is done in a number of countries without undue problems. So, when we say that food should not be taxed, this does not mean that we have a view that restaurant meals should not be taxed. We think it is possible to separate them. This again would reduce the cost of not taxing food.

We believe that the tax revenue lost because of food not being taxed should be made up in some other way. Our preferred option would be to possibly reduce the income tax cuts or remove tax loopholes or schemes that enable people to minimise their tax to make up the revenue lost. ACOSS produced a list of possible things, way back last August. They would more than make up the cost of not taxing food if restaurant meals were excluded.

If for some reason the government felt it could not do that and it also felt it could not reduce the income tax cuts, the final option would be to increase the rate of GST. This is our third best option. It is not one we are advocating, but it would be better than taxing food.

We calculate that this would mean a tax rate of 11 per cent rather than 10 per cent, in very round numbers.

CHAIR—I have a couple of questions. On the food matter, if Senator Harradine were here he would ask you, ‘Why stop at food? That is a necessity of life, particularly for people in low income areas. Why not look at clothing and shelter?’ In particular, being a Tasmanian, he would say, ‘Why not look at heating in winter and other things that are necessary to have a reasonable, but not excessive, quality of life? Why just food, why not the others?’

Prof. Nevile—The Anglican Church is called the *via media*, which is a nice way of saying it is a compromising institution. Picking out food is because food is by far the most important, by far the largest item of expenditure of low income people. The second largest item of expenditure is housing, but there are already some mechanisms in place to help low income people with housing. They are not as good as they were some years ago, because of cost cutting measures; nevertheless, they still exist.

Senator CONROY—Do they suffer the same disparity that you are talking about with public transport? Rents are going up in public housing, despite the fact that the housing sector, as a whole, is coming down because of savings in interest rates and those sorts of things. There is a disproportionate impact there as well.

Prof. Nevile—Generally in public housing the rents are fixed at a set percentage of income, depending a bit on the state. I am a bit out of date on this—I knew all about it five years ago when I did an inquiry into it—but generally speaking they are fixed at between 20 and 25 per cent. This is another interesting point. If public housing people are given a four per cent increase in their pension to compensate for the GST, roughly between a fifth and a quarter of that will be taken away immediately in increased rent for public housing, by the formula, which means they will get less than three per cent. That is another reason why some people will not get adequate compensation.

But, to come back to answer your question quickly—I am sorry—we concentrate on food because food is by far the most important item just in terms of percentage of income spent on it. Also, I personally have been influenced by some modelling done by Professor Creedy at Melbourne University many years ago, probably a decade ago, which looked at it very carefully and showed that you got a very big gain in equity if food was not taxed. After that it tended to be much smaller.

Bishop Curnow—There is a practical reason as well, in that Anglicare Australia’s resources are pretty small and I think the political reality that we chose was to focus on food. There are other agencies in the welfare sector, such as Ecumenical Housing, particularly in Victoria, that have decided to take up the housing issue. ACOSS have decided to take up a wider spectrum of issues, but we have decided to address food as our focus.

CHAIR—Do you support and back the groups that are looking at other elements?

Bishop Curnow—Yes. And we are involved with a lot of other networks, so we have tended to let those networks speak for us on other elements of the GST and we have tended to stick with this.

CHAIR—So to the question of what you are asking us to do, is it the right answer to take out food but, because of support for other groups that are specialising in other costs that impact on low income earners, to have regard to and amend the bills with respect to those issues as well?

Bishop Curnow—That would be a reasonable understanding.

CHAIR—In a way, your submission is a sort of a wake-up call to this committee from the coalface of welfare and social policy delivery. Anglicare turns over \$300 million, I think your submission says, in welfare and aged care.

Bishop Curnow—Yes.

CHAIR—The voluntary welfare sector, if I have got it right, meets 60 per cent of all the care and responsibility to an annual budget of about \$9 billion, which I think is what your submission refers to. These are not trifling figures; these are quite large figures. And you make a very strong case for progressive taxation. In your submission, you endorse the principle of higher tax for higher income people—a progressive form of tax, rather than a regressive or flat tax. That is a feature of what you say.

We have had evidence—most notoriously, given the media yesterday, from bodies like the Insurance Council of Australia—that there is a \$2.5 billion unintended consequence that the government has not taken account of but which, if they are not given relief for it, consumers of their product, many of whom may be low income earners, will have to pay. They will simply pass on the cost. Are you aware of that and other areas where evidence has been brought come forward that the government has underestimated the transitional costs of their package and costs to consumers or others, particularly low income earners, may be a lot higher than is allowed for?

Prof. Neville—We are certainly aware of a number of areas where the government has underestimated the cost. The particular one of insurance we have not considered.

Senator FERGUSON—I am not surprised, because it was first raised with us yesterday. We could hardly expect you to know about it.

Senator CONROY—It was a front-page story.

CHAIR—All of that is true. I agree with Senator Ferguson that it is a bit hard for everyone to know about it. This is an unfolding story. The more evidence we get, the more detail and greater specificity we have and the greater cause for concern. There is probably an argument for taking greater care, because the outstanding feature of low income people, as I understand it—not being one myself—is that they have no space in their household budget to assume higher costs, and many of them are, in fact, dissavers.

Prof. Neville—That last statement is certainly true. To take the bottom 20 per cent of households: they dissave on average by about 20 per cent of their income.

CHAIR—So they are not able to absorb higher costs?

Bishop Curnow—They are constantly in debt.

CHAIR—In your conclusion you say:

Without further amendments to the draft legislation, aged care services and Anglicare agencies will be liable for new taxes, increased wages bills, major compliance costs and possible industrial tensions. Currently, welfare agencies are responding to high and increasing demands for their services coupled with increased costs and cut backs in Government funding for essential social services.

You reach a somewhat bleak conclusion about your own budgets, in terms of maintaining the delivery of the services and supports you currently provide. Your conclusion is that, if this tax comes in, you will have fewer funds to meet your needs in the future. Caught in such a budgetary situation, your alternatives seem to me to be to the following. Firstly, acquiring more income might be one course, if you can raise charges, which does not seem to be a very likely thing, so that does not seem to be a real option in your case. Another course would be to sack staff and reduce your wage costs. Another course would be to reduce your services.

Bishop Curnow—I think those two would go together, since the main costs of services are wage costs.

CHAIR—Do I assume, therefore, given that you believe you will have fewer funds, that there will be redundancies among your staff and a reduction in services that you deliver?

Bishop Curnow—Yes, and in my initial presentation I cited just one example from an agency in Melbourne which estimates that the increase in costs to them will result in the loss of 14 beds and 11.5 full-time positions. So we do see a very significant impact upon our agencies and their ability to deliver services.

CHAIR—Now, as you say, this comes at a time when demand is increasing. So, at a time of greater need you deliver fewer services.

Bishop Curnow—Yes.

CHAIR—What happens to the people who miss out in those circumstances, where an agency such as yours—and other agencies similarly affected like yours—cannot meet the need? What happens to those people?

Bishop Curnow—That is a good question. What will happen is that those people will just be added to what you might call the residue of the poverty trap or the welfare statistics. Any of us who are working at the coalface are only too well aware that there are already people out there who fall through the existing range of services, because there is just no means of providing them. So what happens is that the percentage of Australians who you would call poor just gets bigger. The gap between the rich and the poor widens.

CHAIR—So, if you were the last stop before people fall right through the net, are you in a position to indicate how many people you would expect would suffer further, in the event of these changes being made?

Prof. Neville—I don't think we can give you a precise figure on that.

CHAIR—Okay. You also say in your conclusion that you, along with other church and community organisations, welcome the government's commitment to broaden and strengthen the public revenue base to maintain adequate social services. In the conduct of this inquiry, this committee unanimously awarded a contract to Monash University to do some modelling for us, so that we could have access to independently modelled outcomes for the macro economy. Are you aware that Professor Dixon, who did that work for this inquiry, is of the view that under the current system more revenue is generated to public revenues than would be the case if the system were changed as the government proposes?

Prof. Neville—Yes, I know that that is the result of that modelling. I am not sure, but I do not think it is a very large or significant amount. Correct me if I am wrong.

CHAIR—I think that is right.

Prof. Neville—They are comparable.

CHAIR—But his modelling shows that the argument that the system is broken and, therefore, you need a new tax that will generate higher revenues is a fallacy.

Senator FERGUSON—He is the only one that thinks so.

Prof. Neville—I would think that his modelling—

Senator CONROY—Get Treasury to model it then.

CHAIR—Order! Order!

Prof. Neville—I know Professor Dixon well, and I would call him a friend, although we disagree on a lot of economic matters; nevertheless—

CHAIR—It seems most economists do.

Prof. Neville—Nevertheless, I would think that his model is correct in the static sense. In the sense that, taking the situation as it is now, the two are comparable, and it may well be true that the existing system gives a little bit more than the new system. That is not very surprising. In fact, we know that the budget surplus will go down, other things being equal, which suggests that the existing system gives a bit more than the new system. But, in the longer run—and by longer run I am talking about five to 10 years—I think the GST will make revenue more buoyant than the existing wholesale sales tax and the other indirect taxes that are being removed.

Senator CONROY—Have you got modelling to back that up?

Prof. Nevile—No, I have not got modelling to back that up.

Senator CONROY—Or is this just your gut feeling?

Prof. Nevile—It is more than a gut feeling. I would not call it modelling, but it is based on looking at trends in the different items that are being taxed and that sort of thing. It is not sophisticated modelling; it is back of an envelope stuff.

CHAIR—We get into a terrible argument in logic at this point, I think. My recollection is that the Dixon model looked at eight years out, but that it is against an assumption that nothing changes.

Prof. Nevile—Exactly.

CHAIR—At the beginning, you said that you were in favour of improving the current system. I think everyone in Australia is. One of the problems with this debate is that what we have before us is labelled by the government as ‘reform’, when that is a matter of judgment and not a matter of fact. The point about the Dixon modelling is, to the extent that welfare agencies are concerned about revenue to meet future welfare bills—a legitimate concern, I might say, and one rightly raised—the Dixon modelling shows that, even on a static, no-change basis, up to eight years out, as I recall, the outcome looks to be better with the current system. The point is that that is not a reason not to reform the current system: there needs to be change, but perhaps not to the extent that we are now looking at. Finally, Professor, you are familiar with the tax credits system, are you not?

Prof. Nevile—Yes.

CHAIR—One of the arguments that I probably have with a welfarist point of view which says, ‘We need a GST to generate more funds for the future’ is that, while that to some extent minimises poverty traps, it does not eliminate them. Is it right that a tax credit system, properly structured, is more likely to eliminate poverty traps and, therefore, to encourage people to work and away from welfare?

Prof. Nevile—Tax credit can certainly help in eliminating poverty traps. In judging any tax credit system, I think you have to consider two questions. The first question is: do we want to reinvent an old distinction in English social history between the ‘deserving’ and the ‘undeserving’ poor. Tax credits help those who can find a job. They do not help those who cannot. That is the first point. The second point is, I think, you just have to look at the cost—

CHAIR—Before we go on to the second point, the first point is quite an important point, and it is a very important distinction to have before us. Is it more likely to help people find work?

Prof. Nevile—It will not help people find work. What it will do is remove a disincentive to look for work.

CHAIR—Yes. Thank you.

Prof. Neville—It certainly will remove a disincentive to look for work. This can be important. It is really very hard to know how strong this disincentive is. When I was doing the Industry Commission inquiry into public housing, I was often surprised by witnesses who came and said they went and got a job, although, by the time they had paid more in their public housing and paid to go to work and buy some clothes for work, they were significantly worse off than if they had not got the job. So there are a number of people who despite their disincentives still look for work, but there are obviously others who do not. So that is that point.

The second point is that I think you have got to look at the cost of the tax credit. You have to look at just how much it is and at what else that money could be spent on if it were not being used for this purpose. To do that, you have to have a specific scheme. It is not a question you can answer in general terms. It depends on the design of the tax credit scheme.

Senator FERGUSON—I will just ask about a matter of procedure to begin with. You have had a bit over 20 minutes of questioning: will we be able to have 20 minutes, as well as the Democrats' questioning, and still fit in with our time frame this afternoon? I need to know, because I need to know how many questions I can ask.

CHAIR—I was not aware of how much time we had, but we are going to share the questioning fairly.

Senator FERGUSON—That is what I wondered, because it will put us over our allotted time. The question of poverty traps and trying to eliminate them was raised. Senator Andrew Murray of the Australian Democrats, who unfortunately cannot be here today, congratulated the government a couple weeks ago at a press conference for being the first government to actually try to do something about the existing poverty traps created by the current taxation system. Do you agree that our tax reform package does in many respects attempt to eliminate, to a certain degree, the poverty traps that exist in the current system?

Prof. Neville—As I understand it—and I think my understanding is correct—the government's current proposals reduce the cut-off rate from 50 per cent to 40 per cent, if my memory is correct. They certainly reduce it, and they also make some other concessions which will help reduce poverty traps. So they are certainly moving in the right direction.

Senator CONROY—But not on the unemployed. There is no change to the tapering in the—

Senator FERGUSON—Senator Conroy, I think we listened carefully while Senator Cook asked questions. If you want to interject, I would suggest that we might—

CHAIR—You rein him into order, Senator.

Senator FERGUSON—I am trying to: we listened very carefully while you questioned these people, and I think the same courtesy could be provided by Senator Conroy.

Prof. Neville—Nevertheless, Senator Conroy was correct to correct me. I overlooked that point he made.

Senator FERGUSON—He was not actually correct to correct you, because he did not have the call.

Senator CONROY—You have the call, so in fact you—

CHAIR—Order! It is Friday afternoon. We have had a long, weary week. Let us try to finish the week with some dignity.

Senator FERGUSON—How would you define food, Professor Nevile?

Prof. Nevile—What I am saying is that we would rather food not be taxed, even if that included restaurant meals. But, if I was given my druthers, I would define food in the commonsense way, except to exclude meals eaten in restaurants. I know that this is a grey area, and in any tax system you have to have grey areas, but that seems to me a straightforward and commonsense definition.

Senator FERGUSON—What about a McDonald's restaurant?

Prof. Nevile—I would have the very simple definition which worked for a long time when I was in England: if you ate it in McDonald's, it was a restaurant; if you took it outside the door, it was food.

Senator FERGUSON—So McDonald's would have to have a system which says that, if you buy a hamburger and eat it outside, it is tax free; if you buy a hamburger and eat it inside, it is taxed.

Prof. Nevile—What McDonald's would do is ask the person, 'Is this takeaway or eat here?'

Bishop Curnow—Which they already do. A lot of restaurants already have the system of making a difference in price between eating in the restaurant and taking it away.

Senator FERGUSON—And a lot do not.

Prof. Nevile—That is true. But the restaurant's responsibility would be to say, 'Are you eating it in here or taking it away?' If they said, 'We are eating it in here,' they would be charged tax. If they took it outside the door, and sneaked back in again, I don't suppose McDonald's would be unduly worried. I don't suppose it is their responsibility to police that particular aspect.

Senator FERGUSON—I use a Shell service station quite often driving home at night. I have been known to order a hamburger to take away and then to sit down at the table and eat it, because there is no difference in the price anyway.

Senator CONROY—Tax avoider!

Senator FERGUSON—So I am not quite sure whether you would say that I was having a restaurant meal or a takeaway meal.

Prof. Neville—For many years in England, if you took your fish and chips outside the door, you did not pay the GST, and if you ate them inside the door, you did. I never heard of the tax collector, the police, the restaurant or the customers getting unduly upset by this arrangement.

Senator FERGUSON—All it does really is complicate the system though, doesn't it? This is the very thing that we are trying to avoid.

Prof. Neville—It certainly makes the system more complicated. It certainly means that small businesses have to allow for one extra thing. I accept that point. I would argue that uniformity of taxes does not have any great virtue, except that the simplicity that comes with uniformity helps small business. And, indeed, the whole GST is going to be bad for small business, in the sense that their compliance costs are going to go up. The government has recognised this by making some concessions to small business. If it is concerned about the compliance costs, it is much easier to design a system of greater compensations for small business than it is for an adequate compensation system for the less well-off in our society.

Senator FERGUSON—That is a debatable question: all of the modellers that appeared before us suggested that the best way to deliver compensation or equity to low income earners and welfare recipients was through the social security system and not by exempting food.

Senator CONROY—That is not quite right. One modeller suggested you do not do it.

Senator FERGUSON—One modeller suggested that we did not adopt a package at all, but he said that, if the package was adopted, he would not exempt food.

Prof. Neville—With respect, Senator, the modellers are feeding assumptions into their models which are economic, and they are not feeding in any sorts of political assumptions such as the one I mentioned before—that the compensation will not be eroded by bracket creep. They are assuming that the present system continues in real terms. If you look at the models, you will find that is the case. They are assuming the compensation package remains entirely intact and is not diminished in any way in the future. If you had a cast-iron guarantee that that would be the case, the situation might be different. But, being realistic in political economy, this is just not so. There is no way the tax system is going to be indexed, for example.

Senator FERGUSON—On the issue of bracket creep, under the proposals in this tax reform package the very people that you are talking about will probably be on the same marginal rate of income tax all their working life, so why is bracket creep going to be a problem? The tax rate is 30 per cent on incomes up to \$50,000. If you are talking about low income people—

Prof. Neville—Refresh my mind, but doesn't the 30 per cent start at about \$30,000?

Senator FERGUSON—It starts at \$20,000.

Prof. Neville—It starts at \$20,000, I apologise.

Senator FERGUSON—It starts at \$20,000, and there is a chance that someone who starts work at \$20,000 and remains a low income earner will be on that 30 per cent rate if not for all of his working life, certainly for a fair proportion of his working life. And once you get to \$50,000, you are hardly talking about low income people.

Prof. Nevile—I take that point, and I agree that bracket creep does not greatly affect people over \$50,000. However, technically, bracket creep will affect people in the \$20,000 to \$50,000 range, for the simple reason that the value of the tax-free part of their income will be a diminishing proportion of their income. So in that way bracket creep will affect them. Indeed, it affects people on \$100,000 but, obviously, it is much less important to them at that point.

Senator FERGUSON—I did not say it would eliminate bracket creep; I said it would do more to eliminate bracket creep than any other marginal tax rate scheme that we have had in the past, because there will only be one move. There will be the move once you go over \$20,000, but for the next \$30,000 people will remain on exactly the same marginal rate of income tax. Can you tell me any government that has done more to eliminate bracket creep than to have a \$30,000—

Prof. Nevile—Mr Fraser did for one year.

Senator FERGUSON—For one year. The Labor Party have never done it.

Prof. Nevile—You may well be right. But it will still be true that the bottom \$6,000, and the range from \$6,000 to \$20,000, which will be a lower range of tax, will be a diminishing proportion of income in real terms, even if your income in real terms remains constant. That is the only point I am really trying to make.

Senator FERGUSON—I will not labour the point, but when you have two lower rates—you have 17 and then 30—the effect on bracket creep, while not eliminated, has much less effect than the current marginal tax rates in place.

Prof. Nevile—That may well be true.

Senator O'CHEE—If Anglicare's preferred position is to tax meals in what you define to be restaurants but not to tax other food, where does that leave a fish and chip shop? Is that a restaurant?

Bishop Curnow—Going back to what Professor Nevile said, if you went on the condition that they use in many American states as well as in England—as you would be aware there are often local state taxes in many American states—you decide along the line of whether you dine in or dine out. As far as I am aware, looking around, most fish and chip shops completely cater for a dine-out customer. In that sense it would not apply.

Senator O'CHEE—Does the UK still use the take it away or eat it there distinction?

Prof. Nevile—I do not know the answer to that, because I have not been there for nine years, but for a long time they had that distinction. I am sure they still distinguish between

restaurant meals and food in the form of groceries, fresh food, vegetables and so on, because the OECD reports make that point.

Senator O'CHEE—But they no longer use that distinction, do they?

Prof. Nevile—I do not know the answer to that. I am not sure of the precise distinction they have decided to use. If you remember, I said that this is my druthers; I did not say it was Anglicare's druthers.

Senator O'CHEE—During the last sitting week, the Senate was treated to details of how the UK now tries to deal with this issue: they look at whether food is served at ambient temperature, and all sorts of problems arise from that. That is because they moved away from the mechanism that you are proposing that we should adopt. Surely, there must have been some reason for moving away from it?

Bishop Curnow—You tell us. Why do you think that was?

Senator O'CHEE—For the very simple reason that it was so complex administratively. It was difficult to deal with. It just did not work. Surely, if it had worked, they would have kept it?

Prof. Nevile—I would debate that. We are talking speculatively about things that neither of us really have hard facts on. We do not know why they changed the system. I do know that in many American local government areas where there are retail sales taxes from which food is exempt, that distinction is made pure and simple. If you eat it within the walls of the place serving it, it is a restaurant meal; if you take it outside the door and eat it, it is food. That is true of a large number of local government areas in America.

Senator O'CHEE—But Professor Nevile, your argument was that we should go down the UK route, which they have now abandoned.

Prof. Nevile—That was the UK route. They may have abandoned it for many reasons, including political pressure from constituencies in a certain area. I have no idea why they abandoned it. In any case, I should stress that I did say this is what I would prefer; I did not say it was an official Anglicare position.

Senator O'CHEE—So what would Anglicare prefer?

Bishop Curnow—I do not think Anglicare have gone into this in terms of the detail you are asking for, saying, 'By what system should we make a discernment between what you would classify as food in a restaurant and what you would classify as food outside a restaurant?' In trying to at least introduce what we saw as some fairness into the government's proposal, we were trying to address the issue of equity in the way this tax lies as an impost against the poor. And that, basically, is still what we want to keep coming back to: the argument that the effect of this tax falls five times more heavily upon low income earners than upon high income earners. I think that the arguments you are coming up with—and I take it they are real issues—are details taking us off the main stage.

Senator O'CHEE—My problem, Your Grace, is that these issues, as Senator Cook would say to you, are the very issues that the Senate has to tackle. These issues of detail which you consider to be unimportant are, in fact, important when it comes to legislating for a tax system. If you want to advocate a departure from what the government has done, you should at least do us the courtesy of giving us a guideline.

Bishop Curnow—We are not advocating a departure from what the government has done. This is about what the government is proposing. I am not saying that it is not an important matter; I am simply saying that, given our resources and the focus we have put into it, we have not put a lot of effort into working out how you would discern between restaurant food and food other than restaurant food. Perhaps, given the point you are making, we need to.

Senator O'CHEE—Let us leave the restaurant food issue.

Prof. Neville—Could I just make one more point on that, Senator?

Senator O'CHEE—Certainly.

Prof. Neville—I agree that wherever you draw the line there are going to be some fuzzy things and some people will feel dissatisfied. Nevertheless, I have here an official OECD report which shows that virtually all OECD countries with a GST tax food at a different rate from the general rate. So they have some mechanism for drawing the line. They may all have different mechanisms—the report does not say—but the vast majority of OECD countries treat food differently. Surely, Australia can benefit from their experience and find out what mechanisms are used and pick the best one.

Senator O'CHEE—Let's just address the issue of food generally because that is what you wish to do.

Prof. Neville—Yes.

Senator O'CHEE—You are aware, for example, that many leading economists dispute the suggestion that food should be free of GST. Professor Neil Warren said that there is another reason why concessional rates for food need to be avoided. This relates to concern about whether the full benefits of the concession are actually passed on to the consumer. He states that, if there are two sectors and one is taxed and another is untaxed, consumers will substitute the untaxed good for the taxed good. Professor Dixon said that in the long run exempting food has a negligible but negative impact on economic welfare under either labour market assumption. We can go through other economists—Ann Harding, David Johnson, Geoff Carmody and Chris Murphy, for example—who were all against this.

Prof. Neville—I know these economists. I supervised Neil Warren's PhD and I know him extremely well. I know the way he thinks. All I can say is what I have said before: these people are assuming that the compensation package that is put in place will remain there unchanged and will not be diminished in any way from now to perpetuity. I do not believe that will happen.

Senator O'CHEE—They are all talking about the effect on the economic welfare of Australia. They are talking about what it does to the economy.

Prof. Neville—Let me take the case you mentioned first, Neil Warren, because I know extremely well what Neil is saying. He is saying that people who are not poor, who are either moderate income earners or very well-off people, spend more—in an absolute amount—on food than do very poor people, and that is true. Therefore, if you tax food and compensate the poor people for all the tax they have paid on food, you will still have surplus tax revenue. That is certainly true. There is no doubt about that. The only question is whether you will continue to compensate the poor people adequately for the tax they have paid on food. Neil does not address that question. He just assumes you will.

Senator O'CHEE—Your analysis also makes some assumptions that are probably not correct.

Prof. Neville—I hope they are correct.

Senator O'CHEE—For example, you say—

Senator CONROY—Don't feel threatened by Senator O'Chee's analysis.

Senator O'CHEE—I certainly wouldn't feel threatened by yours.

Prof. Neville—What assumption do you want to discuss?

Senator O'CHEE—For example, you talk about the compensation for welfare recipients not being sufficient. But ACOSS found that on average every low income welfare group had their cost of living rise, under their most dire assumption set, by less than the level of compensation. These are people who are welfare recipients and, therefore, their welfare receipts are indexed.

Prof. Neville—Yes. ACOSS said two things. One was that, if you took each of the welfare recipient groups, for example—and excuse me if I use the old-fashioned terms—old age pensioners, unemployment benefit recipients and so on, on average their costs would rise less than the compensation. They also made the point that within each group there would be some people whose costs rose more than that and who were not compensated. They made that point quite explicitly. So that is the first point about ACOSS.

Senator O'CHEE—Are we supposed to run around Australia and invalidate a package because we can find one person in a particular group whose costs may rise by more than the proposed compensation? Surely, as an economist you have got to accept the fact that, when you model a group of people, there is a value in modelling the average?

Prof. Neville—Can I just say three things? The first is a cheap debating point about the man who drowned in a river with an average depth of three inches. The second, more serious one is that it is not just one person; there are substantial numbers of people in all these groups. In addition, there are people who are not welfare recipients who get compensation of some sort or another which may or may not be adequate. It is certainly true

that there are groups who will not be compensated adequately. I have pointed out one explicit group which gets no compensation at all because its members are not welfare recipients. It is also true that many people in public housing will not be adequately compensated, given ACOSS did not allow for certain facts in its modelling. Quite apart from that, I would like to finish—although I should not—with a political point: the Treasurer has said many times, very loudly, that there is not one person who will not receive adequate compensation.

CHAIR—I think St Vincent de Paul tutored us on averages when they gave the example of a 70-year-old turning up with a 10-year-old to a meeting. If they are the only two in the hall, the average age of the meeting is 40. We would make a startling mistake if we pitched our policies at 40-year-olds to impress that audience.

Senator BARTLETT—I want to press the issue of compensation versus exempting food slightly further, just to make sure that I have got your argument clear. Bishop Curnow, you are basically arguing, I think, that compensation is either fragile or unreliable, and we are unable to guarantee it will last. You believe that exempting food would minimise that danger. Is the lack of confidence in the reliability and dependability of compensation due to future pressures on government spending or to bracket creep? Why don't the public broadly—and yourselves—have confidence that compensation will last?

Bishop Curnow—I think that one answer one can give to that—and perhaps Professor Neville will speak to the two that you have raised—is that where there has been compensation for food in other countries with a GST, those compensation packages for food have been eroded within a short time. New Zealand is an example. Although the government keeps giving the public an assurance that they are going to make sure the compensation is in fact ahead of any impact, I do not think that anybody is convinced.

Prof. Neville—I think it is a fact of life that there will be very strong pressures on any government. It is very hard to believe that governments will be able to completely resist these pressures. If you look at the history of Australia, there is plenty of reason to support that.

Senator CONROY—Would you advise us not to introduce a GST?

Senator FERGUSON—Even in the Senate, where the government never has a majority.

Senator BARTLETT—Unless you rig the voting system and change it, like you are trying to do.

Prof. Neville—Part of the problem is that you can do this sort of thing without changing the law. Bracket creep is a very obvious example, and maybe not the most important example. Nevertheless, bracket creep occurs because the law is not changed, not because the law is changed. Who gets what is not just a matter of the law; it is also a matter of administrative procedures and regulations which may or may not have to go before the Senate.

Senator BARTLETT—We have heard some evidence from economists through this and other committee hearings, arguing that taking food out of the tax net will increase compliance costs and, therefore, be economically disruptive. In a broad sense, is it good economics to tax food?

Prof. Nevile—Taking food out will increase compliance costs for small businesses. I think for large businesses they have already got such sophisticated accounting mechanisms that that is not an argument. I think the whole argument is about small business. Yes, it will increase compliance costs for small businesses, as the whole GST will substantially increase compliance costs for small businesses. There is no question about that.

The only answer I can give to that is that I believe it would be easier to do more to help small businesses with the transition than it would be to devise a foolproof compliance system for the less well-off.

Senator BARTLETT—In relation to that argument about a uniform rate and those flow-on issues of simplicity, and business obviously sees this as essential, predominantly because of the simplicity argument, you mentioned differential rates on food earlier on: in terms of other countries you are aware of around the world that have GST or similar tax, do they all have flat rates or do most of them have differential rates?

Prof. Nevile—I have something here which is put out by the OECD covering all its members. The only country in the world with a flat rate is Japan—it was a three per cent rate, and it went up to four per cent, and I am not sure whether it is still four per cent or five per cent. I am sorry. But it is a very low rate. Apart from Japan, with its very low rate of GST, there is no country that has a flat rate.

And it is not just food: to give you one example, Ireland has a zero rate for 10 categories, and it has a lower than normal rate for another 32 categories. So there are 42 categories in Ireland that pay less than the standard rate. That is the first one on the page I opened. It was perhaps a bit unfair to pick on Ireland, because that is an extreme case. Nevertheless, all countries have more than one rate.

Senator BARTLETT—So it is not even just a matter of 10 per cent or nothing?

Prof. Nevile—No.

Senator BARTLETT—It is quite possible to have a range of rates without the sky falling in and—

Prof. Nevile—Yes, that is certainly true. This is an official OECD publication which gives you the coverage of the different VAT rates in the OECD.

Senator BARTLETT—You mentioned briefly on page 4, I think, of your submission, Anglicare Tasmania and some of the work they have done on the Tasmanian situation, focusing particularly on food. Why is Tasmania different, and why is food so important there?

Bishop Curnow—One of the issues that Anglicare Tasmania is raising, particularly in reference to food, is that, although the CPI measures food across Australia, there are substantial variations at the regional level. The national average does not necessarily reflect what is happening in various states. For instance, the cost of food in Tasmania is greater than in other parts of Australia, because of Tasmania's isolation and the necessary transport costs involved. On the other hand, if you go and buy food in many places in Melbourne and Sydney with much larger and more competitive markets, costs could even be lower than the average of the CPI. That is why they have drawn particular attention to Tasmania. The point they are making is that there are many parts of Australia where the CPI is not a good measure of what is happening.

Senator BARTLETT—There are a lot of other issues that I would like to go into in relation to the operation of welfare agencies, but because of time and because I think some of them have been covered by other committees, I will confine myself to the specific issue of food. Just bringing it back to that, because it seems to be your main focus, do you believe—without saying that all the rest is optional—that food is a fundamental issue in terms of a change that needs to be made?

Bishop Curnow—As I said to Senator Cook, we have concerns about other areas with regard to the GST, and particularly their impact upon low income people. But Anglicare Australia is really wanting to make food the area about which we are not prepared to negotiate at all. We want it not part of the GST.

CHAIR—I have had a request for one question from Senator Conroy, in which case there will be one question from Senator Ferguson, and that will conclude this session. Senator Conroy, your one question.

Senator CONROY—My question was actually almost identical to Senator Bartlett's, except that your answer now leads me to about 10 million others. I am struggling now to understand when you say you are supporting the calls for exemptions from other organisations. Could you identify what they were?

Bishop Curnow—We are certainly concerned about rent for low income people as one of the areas.

Senator CONROY—So you want to see it exempted?

Bishop Curnow—Yes.

Prof. Neville—If I could go a bit further with that, since it is something I feel strongly about and know a lot about from a previous incarnation, the present intention of the government is to impose a GST on rent paid in caravan parks, boarding houses and similar sorts of things on the grounds that it is too hard to distinguish between tourists and permanent residents. Some of the poorest groups in Australian society live in boarding houses and caravan parks. That is one thing that we have not focused on at all but which nevertheless Anglicare believes is extremely important and is very sympathetic to the groups that—

Senator CONROY—Is it negotiable or not negotiable?

Bishop Curnow—We would say not negotiable, but we have decided not to make that part of our campaign. It might sound strange, but we—

Senator CONROY—It is just that I am interested to know whether, when you appear on TV tonight, you are going to be saying, ‘These are the ones,’ or you are just going to be saying food.

Bishop Curnow—No, we would add rent.

Prof. Neville—I think we would argue that food is the one we want to present a case about, but we are very sympathetic to the groups that are arguing that rent should also not be negotiable.

Senator FERGUSON—It has developed into two questions now. What you are really arguing for is higher taxes, aren’t you?

Senator CONROY—But lower business tax is all right?

Senator FERGUSON—That is his fifth—I have got another one.

Prof. Neville—What we are arguing for at the moment is not higher taxes. We are working within a revenue neutrality. Given that we are already cutting the surplus by, what is it, \$7 billion, in that sense it is lower taxes. But at the moment we are arguing within that assumption, though it is also true—a clue to real thoughts, as some people used to say—that we believe in the long run this will mean that taxes will be an increased proportion of income.

Senator FERGUSON—Don’t you believe the official employment figures as they are put out?

Prof. Neville—Sorry? I am not—

Senator FERGUSON—The reason I ask the question is that you talk in your submission about an entrenched level of 10 per cent unemployment. I cannot remember an entrenched level of 10 per cent unemployment since we had a Labor government.

Prof. Neville—An entrenched level of 10 per cent unemployment—I did not write that, but I am—

Senator FERGUSON—No, I know you did not write it.

Prof. Neville—I am sure what the person meant was an average level of unemployment over the whole cycle, good and bad times alike. That has been true, unfortunately, for the 1990s.

Senator FERGUSON—Not since 1996 it has not.

Prof. Nevile—No, because we have been in a boom. If we—

Senator FERGUSON—We cannot talk about an entrenched 10 per cent unemployment rate because in fact it is not.

Prof. Nevile—Okay, well maybe—

Senator FERGUSON—The current unemployment level is 7.5 per cent.

Prof. Nevile—Sure.

Bishop Curnow—Obviously, in a boom you are going to have less. That is the average.

Senator FERGUSON—No.

Prof. Nevile—It is the average.

CHAIR—It is the measured level.

Senator FERGUSON—No. The level of unemployment is 7.5 per cent. Sure, there is 10 per cent in some particular towns, but there is also six per cent in some.

Prof. Nevile—There are two things that can be said. I think that the person who wrote that—and this is what I assumed when I read it—meant that, taking good times with bad, on average, unemployment is now at 10 per cent. And I would argue that is the case.

There is another way of looking at it which can also be argued: that when measured unemployment is 7½ per cent, there is also a substantial amount of hidden unemployment. But if you took that figure it would have to be higher than 10 per cent, so I think that was not what was meant.

Senator FERGUSON—I would hope not, because I would debate that issue with you. In fact, for you to say that there is an entrenched level of 10 per cent unemployment is something that we would not accept. In fact, I am doubtful, if the unemployment level was at 7.5 per cent, whether the previous government would accept that either.

Prof. Nevile—I am sure any government would like to put the best possible gloss on the figure and take the lower figure, if it were possible for it to do so.

Senator FERGUSON—It is the accurate figure.

CHAIR—I think it is the figure as measured by the bureau in their surveys. Thank you, Bishop Andrew Curnow and Professor John Nevile from Anglicare, for the assistance you have rendered the inquiry this afternoon and for appearing here and giving of your time.

Bishop Curnow—Thank you.

Prof. Nevile—Thank you.

[3.13 p.m.]

BATTIN, Dr Timothy Michael, Member, Australian Catholic Social Justice Council

CORNISH, Ms Sandra Jayne, Chief Executive Officer, Australian Catholic Social Justice Council

KEATING, Mr Christopher John, Member, Australian Catholic Social Justice Council

MANNING, Reverend Kevin Michael, Chairman, Australian Catholic Social Justice Council

CHAIR—Welcome. I offer you my apologies: for whatever reason, you have drawn the short straw in that you are the last witnesses at the end of a very long week. If I do not catch my plane at 4.30 to Perth, I will not get another one until much later this evening. I mean no offence to you or your witnesses in leaving a little early, but I will. I apologise for that in advance.

Do you have any comments to make on the capacity in which you appear?

Rev. Manning—I am the Chairman of the Australian Catholic Social Justice Council and the Bishop of Parramatta, in New South Wales. Ms Sandie Cornish is the council's chief executive officer. Mr Chris Keating is the executive officer for the social justice committee in South Australia, the Diocese of Adelaide, and a political scientist. Dr Tim Battin is a lecturer in political science at the University of New England.

CHAIR—The normal format is for us to invite you to give us a brief overview of your submission and then be available for questions, if you would not mind.

Rev. Manning—Thank you for inviting us. The Catholic bishops of Australia have long held concerns about Australia's tax system. Since the National Tax Summit, back in 1985, the bishops, through their agencies, have been actively engaged in the discussion on reform of the taxation system.

The document *Common Wealth for the Common Good*, published by the Australian Catholic Bishops Conference in 1992, made recommendations on tax reform. The bishops and their agency have been engaged in these discussions because they are linked to issues of morality and justice. The desire to promote the common good and distributive justice, and a special concern for those who are the poorest and most marginalised in our community, are at the heart of Catholic comment on any tax reform.

The Australian Catholic Social Justice Council is the national social justice body of the Catholic Church in Australia. It exists to advise the Australian Catholic bishops on social justice issues and its authority is drawn directly from the Australian Catholic Bishops Conference. It is a body of nine lay Catholics, three priests and religious, and three bishops. The council draws its membership from all states of Australia. It meets three times a year and is served by a permanent secretariat based in North Sydney. I am the chairman of that council.

The council's submission to the committee was prepared by a working group made up of the chief executive officer of the council secretariat and three members of the council. It has my approval and endorsement. The council's chief executive officer, Ms Sandie Cornish, will outline the key principles underlying the council's view on tax reform. Council members Dr Tim Battin and Mr Chris Keating will present the basic positions adopted by the council.

Ms Cornish—According to Catholic social justice teaching, the role of government is to assist, support and coordinate the efforts of individuals, families and groups in society to ensure that each of them is oriented to the good of all. It should not take away from them their own proper roles. As the Second Vatican Council document *Gaudium et Spes* notes, at paragraph 75:

. . . government is often required to intervene in social and economic affairs, by way of bringing about conditions more likely to help citizens and groups freely attain to complete human fulfilment with greater effect.

The Catholic Church teaches that governments must protect, foster and promote the human rights of all people and all groups. Such rights are civil and political as well as economic, cultural and social. Governments must act not only in the interests of particular groups but for the good of all. Governments must intervene in social and economic life to establish conditions that help each person and each group to achieve their potential as freely and fully as possible. Governments need to raise revenue in order to pay for the goods, services and social infrastructure that they provide, as well as meeting payments on previous borrowings.

So we need a tax system that raises sufficient revenue to fund the activities we wish government to undertake. We need a tax system that is equitable and efficient. We want a tax system in which those with greater wealth and income pay taxes at a greater rate than those with fewer resources. We believe that the goods of the earth are intended by God for the use of all, therefore everyone has a right to the things that they need to live. The taxation and transfer systems should function to ensure such access.

During the run-up to the last federal election, the Catholic Social Justice Council asked all of those proposing reforms to the tax system a number of questions, including: how will you ensure that the tax system is fair, especially for the poorest? Will you increase the proportion of revenue raised through indirect taxes? Will you introduce or raise taxes on necessities? How will you address tax avoidance and evasion across all forms of income? How will you ensure that families are not disadvantaged, compared with those who have no dependants?

Council members Dr Tim Battin and Mr Chris Keating will now outline the key elements of our analysis of the tax reform plan presented by the federal government.

Dr Battin—In speaking to this submission, we do not propose to present the committee with any fancy modelling. We believe that many of the issues surrounding the current debate about a GST can be illuminated by the application of some commonsense and hard logic. Indeed, the most basic question that ought to be asked in any debate about tax—how much money does a government need to raise?—was never asked in the most recent taxation debate, let alone the issues that such a question raises being debated.

Had such a question been asked, perhaps Australians could have debated the issues raised by it. ‘Why do governments collect revenue?’, they might have asked. The debate might have looked at the question of how much revenue we need to raise to fund our hospitals, schools and universities properly and how much we need to raise in order to provide an appropriate mix of public and private housing, thereby housing the homeless.

A debate about such issues would have allowed an escape from the tedious and damaging downward spiral Australia has been caught in for the past 10 to 15 years, where it is assumed that our levels of tax must become lower and lower as a percentage of GDP. This spiral is taken to new depths by the present government in its proposals for a new tax system. By the year 2001-02, for example, the government’s own figures show that its current proposals actually reduce the amount of Commonwealth revenue by \$4.8 billion.

I will come to the implications of that point in a few moments, but first I want to sketch out a very different scenario from the one presented to us by the government’s proposals. The scenario we have in mind is not based on the completely arbitrary notion of reducing overall levels of tax as a percentage of GDP. It starts from a very different point, by looking at what social and economic needs exist in the community of which we are all a part.

Once there is proper debate about that question, the aim is to move on to look at the question of what an appropriate mix of public and private sector activity to achieve these outcomes might be and how these outcomes might be achieved with proper stress on unemployment, the most important social and economic question of our times. Then we can ask: Approximately what level of revenue would we need to raise in order to make a big impression on the achievement of these outcomes? It is a matter of great regret that this is not the way the argument about the taxation system has proceeded. The process, therefore, has a fundamental flaw at its starting point, as have the tax reform processes of the early 1990s and the mid-1980s.

By now this committee must have heard many individuals and groups say that they are not opposed to tax reform; rather, they are opposed to the government’s proposals for tax reform. The committee may be sick and tired of hearing that. Several times in the submission by the ACSJC, we made the point that, while there is a good case for reform of the tax system, the government’s proposals not only will not address problems of unfairness and inequity but will actually add to them. In addition, the ACSJC is among a number of community organisations who believe that it is far from straightforward that the GST addresses problems of complexity. This is a point we shall return to.

In general, it is accurate to say that our main concern is with the gross unfairness of the present proposals. The ACSJC bases this view on the principle of progressivity and the principle of the ability to pay. These principles, I might add, enjoyed more or less bipartisan support in Australia in the postwar era until the last 15 years.

The scandal of the government’s present proposals is that, if they pass into legislation, they will, more than any other tax legislation in memory, violate the principles of progressivity and the ability to pay. One can only think that the government has advanced these proposals as some sort of ambit claim to be bargained over. Such principles, however, are not to be bargained over with such recklessness.

Many people making submissions to this committee must already have said that the shift from the status quo of approximate proportionality in the present Australian taxation system to a regressive tax system is not to be ascribed entirely to the GST. It is the combination of the greater reliance on indirect tax in the GST, in its proposed form, and the flattening of the direct income tax schedules which will be responsible for the shift to greater regressivity.

The ACSJC believes that making recommendations which propose changes within the government's present ambit is a highly problematic activity. Our great fear is that the government might exempt food from the GST while leaving its proposed direct tax schedules alone; it might then claim it had made a generous and marvellous gesture of compromise, when Australia would still be left with a more regressive tax system.

For these reasons, the ACSJC submits that there is a need for a much more radical rethink of the government's proposals. In the main, such a radical approach would give much greater consideration to the four factors identified in our submission as leading to a more unfair tax system. Those four factors are listed on page 5 of the submission. The first factor is the greater reliance on indirect taxes in the GST's current form: this means a tax mix switch towards greater regressivity. The second factor is that the higher regressivity is exacerbated by the proposed tax cuts across the various income groups. The third factor is the lack of any serious attempt to eliminate wasteful, inefficient and unfair tax avoidance mechanisms. The fourth factor is the failure to reduce the more inefficient and unfair forms of tax expenditure and concession.

I mentioned at the outset that the government's proposals to reduce the amount of Commonwealth revenue also had implications. The main implication is that this reduced revenue will also, directly and indirectly, add to the regressivity of the tax system, in all likelihood. In the event that revenue from the cash economy has been over-estimated or that revenue from future economic growth has been relied upon too much, government spending will have to adjust to fit in with the government's overall fiscal policy of budget surpluses. Looking at its 1996-98 record, it is not difficult to predict that the government will have no compunction about cutting services to lower income and middle income groups in order to pursue its fiscal policy.

CHAIR—Dr Battin, I apologise because I must now withdraw. However, you will be left in the hands of three committee members: Senator Bartlett from the Democrats, Senator Ferguson from the Liberal Party and Senator Conroy from the Labor Party. I am sure the IQ of the committee will be raised with my withdrawal.

Senator FERGUSON—However, the committee's behaviour will not necessarily improve, Mr Chairman. We will have to keep an eye on Senator Conroy.

CHAIR—I thought you were going to disagree with me for a minute.

Senator FERGUSON—I would not do that.

Dr Battin—Your departure has come at the point where I was about to hand over to Mr Chris Keating, who will address the issue of compensation.

Mr Keating—One issue that arose in the debate about taxation reform and proposals for a goods and services tax in the 1998 election campaign is the issue of compensation. It is an issue which has received even greater attention since. We make the point in our submission, starting at page 8, that there are several points to consider on the issue of compensation.

First, the Australian Catholic Social Justice Council begins from the position that, wherever possible, economic and social policy should not be devised so that compensation is necessary to address the policy's inequitable effects. It is the infringement of this principle which gives the goods and services tax with exemptions all the supposed untidiness that economic fundamentalists so abhor—not the legitimate pleading by various groups in the community that extenuating circumstances exist.

Secondly, there is a more substantial concern about the adequacy of the compensation in the short term, let alone its adequacy over the medium to longer term. It is truer to say that the so-called compensation in its present form is no compensation at all for lower income groups and is over compensation for the highest income groups. There must be grave doubts about the plight of Australia's poor under these proposals over the medium to longer term.

Thirdly, at the level of practicalities there are also doubts about how well a government, even if it was sympathetic to the needs of the poor, could compensate lower income groups through the direct tax system which is where the compensation should be made.

To return to the first point, there seems to be a growing opinion expressed by the advocates of a goods and services tax that we cannot tolerate exemptions or further modifications to the GST because such modifications introduce the sorts of complexities that the GST is designed to avoid. This view fundamentally misunderstands modern society. Late 20th century Australian society is by its very nature complex, whereas the GST by its very nature is a one size fits all tax.

To this extent, advocates of a GST with only limited modifications can be seen as ignoring complex realities in favour of their more simple theory. This fundamental mismatch between the theory and the reality raises all sorts of social and economic problems. What is noteworthy is that some advocates of a goods and services tax are attempting to shift the burden of resolving these problems onto the sceptics of a GST rather than acknowledging themselves that the problem comes from the fundamental mismatch in the first place.

Dr Battin—To summarise our position, the first point to make is that it is doubtful that the government has actually made a convincing case for a GST. But further, (1), it has advanced proposals for a GST on the basis of non-revenue neutrality; (2), it has combined the proposal with extremely unfair changes to the direct income tax schedules; (3), it has done nothing to reduce wasteful tax expenditures, indeed it has increased them; and (4), it has done nowhere near enough to close down tax avoidance mechanisms. So on the chief criterion that the government outlined for a new tax system, which was fairness, the current proposals fail.

ACTING CHAIR (Senator Ferguson)—I take it from the contribution you have made that you actually support a continuation of the existing taxation system?

Dr Battin—No. The question is not that if you are opposed to the current proposals, you must support everything there is in the present taxation system. The issue is: how do we make a system fairer and how do we make a tax system more adequate? The question of adequacy was the issue I started on and the question of fairness was the issue I finished on. On both of those the present proposals actually violate the principle of adequacy and the principle of fairness.

ACTING CHAIR—In fact, you have only two options: the government have proposed a change to the taxation system, and that is their proposal; if that is not accepted, the alternative is that the government will retreat to the existing taxation arrangements.

Dr Battin—That is a political judgment the government must make. It is outside our jurisdiction to be too concerned about the consequences of appearing before a Senate select committee and knowing that one of the possible consequences is the continuance of the present system.

Senator BARTLETT—On that overall issue of the proposal as it is put forward in the bills versus the current system, as the package stands at the moment, does the package as a whole make the tax system more or less progressive?

Dr Battin—The changes as a whole make the tax system less progressive.

Senator BARTLETT—ACOSS, among others, have argued that governments should overcompensate to ensure that no-one is worse off, that people in specific circumstances outside the average are not worse off. Do you believe that is reasonable?

Dr Battin—It is a reasonable position to take, I think. Our only worry about it is that, as Mr Keating was pointing out, there are all sorts of problems with a tax system where you have to go in to compensate those who are adversely affected by it.

Senator BARTLETT—You mentioned in your submission, on page 9, the taper rate for unemployed people or people on allowances. That is 70 cents in the dollar and is not going to be changed, regardless of whether the bill gets passed or not. You pointed out in your submission that it is an area that has not been addressed. Do you believe that taper rate should be reduced? How important a matter do you think that is?

Dr Battin—Ms Cornish might want to address this issue.

Ms Cornish—We felt that the treatment of different groups, in terms of compensation, was rather patchy and we were very concerned that the unemployed were not going to be compensated adequately.

Senator BARTLETT—Why are you so wary about the likelihood of the value of the compensation package being maintained over time? Don't you feel that governments can be trusted?

Ms Cornish—I think there would be significant pressure on any government to see such compensation packages eroded over time. Such packages cannot be enshrined in an unchanging way. I think there is always a temptation for any government.

Senator BARTLETT—So to minimise that risk—

Ms Cornish—It would surely be better to have a tax system that does not require such compensation to maintain some semblance of fairness.

Senator BARTLETT—And exempting food is a fundamental component of that aspect?

Ms Cornish—We are very concerned that people's basic human needs be met and if possible that there not be any taxes on basic necessities.

Mr Keating—Just on the question of the durability of any compensation package: we also have concerns about a package which possibly over-relies on revenue from the hidden or cash economy and possibly over-relies to a large extent on possible future surpluses as the basis for funding that compensation. In that circumstance, for many people the question is not so much how much compensation but for how long.

Senator BARTLETT—Finally, do you believe that, prior to the election, when the package was first put forward, the public was misled or else did not have a clear understanding of the full impact of the tax changes in the GST, particularly on low income earners?

Dr Battin—Yes, we do. We make the point in the submission that here we had a government that was arguing for a fundamental rebuilding of the tax system, from the ground up—it may have been in June or July 1997 that it made this commitment that it would go to the next election with such proposals—and yet it took 13 months for the government to make known to the Australian people its plans for a change. It then called an early election, with six weeks of time in the intervening period for the people to assess the various arguments put forward for or against a GST. I do not think there is any doubt that it was inadequate.

Senator CONROY—Bishop, in your submission you argue that a lot of the surplus has been created by cuts to welfare. I wonder if you could expand on that.

Dr Battin—Perhaps I could answer that question, Senator. The government came to power in 1996 and set about a fiscal policy of cuts to government expenditure. It did so disproportionately, by cutting services to those who were most in need. We have no doubt that the surplus that has been built has been built by the poor bearing a disproportionate burden.

Senator CONROY—So you could almost say that they are just getting back, in the compensation argument, what they lost a year or two ago?

Dr Battin—I would like to see some econometric modelling on this, because I would be extremely surprised to learn that that was not the case. It is actually worse.

Senator CONROY—I am sure it is.

Dr Battin—Even the current proposals on their own do not adequately compensate.

Senator CONROY—They do not restore people to where they were?

Dr Battin—Yes, that is right. They do not restore people's prior position.

Rev. Manning—If I could just intervene there: I can give you living examples of those. We had two high profile employment aids out in the western area of Sydney. They lost their grants and so on, to the point where they closed down. We cannot talk about compensation now; they are out of existence.

Senator CONROY—I was wondering if any of you attended the ACOSS-Business Coalition tax summits and tax discussions over the last couple of years. There was a big seminar in Canberra. I was actually barred from it myself, but I wondered if any of you were lucky enough to go.

ACTING CHAIR—I can understand, Senator.

Dr Battin—I attended not such an ACOSS seminar, but a seminar on the tax reform.

Senator CONROY—'Jointly sponsored' is probably a better way to describe it.

Dr Battin—The one I attended was one sponsored by the faculty of law at Sydney University. It was held at the Sheraton Hotel.

Senator CONROY—I think this one was actually in Canberra.

Ms Cornish—I think we were not represented at that meeting.

Senator CONROY—But you were invited?

Ms Cornish—Yes.

Senator CONROY—There was a range of business groups there and among them was VECCI, the Victorian Employers Chamber of Commerce and Industry. Everybody notionally—you were not there, so you do not have to put up your hand and admit that you signed up—formed a general consensus about the need for tax reform, with a lot of stories about the need for revenue protection and those sorts of things. Now we have this package. What we saw three weeks ago was VECCI go public and announce that they believed the government should have a further \$3 billion cut in expenditure. That is the sort of pressure that you are talking about.

You were not there so you cannot really comment, but I have some degree of frustration about those who have been, if we can use a colloquial term, in the cart for tax reform—that description is being used—when those that are still in it seem to be being abandoned by some of the people they thought they had in it with them, like business groups.

Another example is the Ralph review and where we are at at the moment. We have to make a judgment in a few weeks in the Senate about whether to vote for this side of the 'revenue neutral' claim. We are seeing a number of organisations now bail out on revenue neutrality. The Business Council, the peak body, was saying this week, 'No, we cannot achieve what we want—Australia being internationally competitive—in the realms of revenue neutrality, but everyone has got to pay a tax on food and clothes and shoes.'

This week, representatives of the National Party and organisations within the National Farmers Federation have added their voice about trusts, saying that it is not negotiable for the parliament to deal with trusts. None of these bodies, before the election, ever said any of these things until organisations like yours and the other organisations from the welfare sector spoke up. I am wondering if any of those organisations' positions surprise you or add to the flavour of the pressures that are being brought to bear on the government now to bail out on this revenue neutrality position.

Rev. Manning—From the point of view of distributive justice, it is nothing new at all. One would expect that that would be the position they would take. We are speaking very much on behalf of the poor and the marginalised. We have a fairly close relationship with them. It has been my experience of some of those councils you speak about that they are looking purely and simply for their own profits; there is very little thought given to the marginalised and the poor.

Senator CONROY—I struggle to understand why some people who have been locked together with these organisations are still remaining mute or giving tacit support to a tax package when everybody else has bailed out. The welfare sector is the only sector, yourselves excepted, that have not bailed out on the package. All these organisations which we have been telling everybody have been behind the package are now bailing out.

Dr Battin—That is a matter of some surprise—that they would not bail out. If I could be a little bit more pointed, Senator—

Senator CONROY—Please. I am trying not to be.

ACTING CHAIR—You are not asking leading questions, are you, Senator Conroy?

Dr Battin—I was very sceptical of the position adopted by ACOSS from the word go, because it showed breathtaking naivety as far as I was concerned. Here it was pairing up with the business groups of Australia, thinking that they were genuinely going to go into a taxation system overhaul and do so honestly and with every intention of looking after the poor and the neediest.

ACTING CHAIR—Have ACOSS got a monopoly on honesty?

Dr Battin—No.

ACTING CHAIR—Are you saying the Business Council has no honesty?

Dr Battin—No, they do not have any monopoly on honesty at all.

ACTING CHAIR—You are implying that the Business Council are not honest.

Dr Battin—They were not honest in that particular instance. No, that is right; I am implying that. Let me state it.

Senator CONROY—I have just one final question. I will probably save Senator Ferguson the trouble of asking it. During the election one of your archbishops put out a statement that there was no one Catholic view on the tax reform question.

Rev. Manning—It would be very rare that he did not have one opinion on these particular matters. However, the central commission of the Australian Catholic bishops, of which he is a member, did have a three-day study in Canberra of all of the agencies present there, and we came to a consensus on a paper of principles governing this. He was quite free to take a position separate to that. It is a gentlemen's agreement. If somebody does not want to be a gentleman, that is his prerogative, of course. But in this particular case he did not see eye to eye with the position, and so he went out and had his say. But generally, when the members of the Australian Episcopal Conference come to a consensus about something they do stick together on it. But there is always the possibility that one of them might break ranks, and he is free to do that.

ACTING CHAIR—He is free to do it, as you say.

Ms Cornish—I might add that the more significant thing is the level of consensus between the national agencies of the Catholic Church in Australia who are mandated in this area.

ACTING CHAIR—Who wrote your submission? Was it put in by a committee or, Ms Cornish, did you write it, or who had input into your submission?

Ms Cornish—I think you will find that at the beginning of the submission we outlined the process by which it was written. It was written by a working group of the Social Justice Council, including members of the council and me. Bishop Manning, as always, has approved our submission. No statement is made on behalf of the council without Bishop Manning's approval. So it is a statement of the council.

Rev. Manning—Also, prior to that being put together, there was a great deal of discussion by our council over a couple of years about these questions. They were always on our agenda. So there is a fair deal of input to the four people who actually compiled the submission.

ACTING CHAIR—While you do refer to the taxation system in lots of cases, I have a view, having read your submission, that it talks as much about politics as it does about tax reform. And I could just quote you a couple of sentences where I think you have become political commentators rather than addressing the issue. You say:

By June of 1997, and contrary to its stated primary objective in the 1996 general election, the Coalition Government was making no demonstrable improvement in unemployment.

There is no mention of the Asian crisis—all those things that had not been around in 1996. You said:

It was in this political context that the Prime Minister announced that there would be a review of the tax system.

To impute motives of the government or of the Prime Minister as to why we should go down the path of tax reform is, I think, a political comment, rather than one that necessarily has anything to do with the issues before us today.

Dr Battin—Let me agree with the first part of your assertion and disagree with the second. I agree that it is a political comment. I take responsibility for putting that part of the submission in, but I disagree with the second part of your assertion. It does have much to do with our deliberations today because, as you say, it imputes motive. Let me be quite clear: I was imputing a motive. The motive was to create a smokescreen about unemployment, because that was the major issue of the day and still is. In mid-1997 when the commitment was made to overhaul the tax system, it was becoming greater and greater in the public mind that unemployment was the issue of the day.

ACTING CHAIR—It is your view, not necessarily the view of the Australian Catholic Social Justice Council?

Rev. Manning—We accept responsibility for it.

ACTING CHAIR—So you are making a political comment too.

Rev. Manning—If that is how you interpret it, yes.

ACTING CHAIR—Well, I cannot interpret it any other way. You are imputing motives to the Prime Minister as to why there should be a review of the tax system when in fact a review of the tax system has been an ongoing debate since 1985.

Dr Battin—And we make that point, too. We make the point that it has been ongoing since the mid-1980s. We devote a large part of the first part of the submission to it.

ACTING CHAIR—You also go on to say:

... apart from the obvious unpopularity of the government's proposals for a GST.

Are you suggesting that governments should govern this country and make changes to laws depending on their popularity or not? If I could perhaps cite you an example: the latest poll that I saw said that 73 per cent of Australians said that we should reintroduce hanging—the death penalty—for murder. Would you want us, on the basis of popularity, to do that as well?

Dr Battin—No.

Mr Keating—It is quite clear in our submission that the position is argued from clear, enunciated principles of Catholic social teaching. It is not being argued on the basis of what

will win a popularity contest. In terms of the question about the context in which the debate about tax reform happens, one of the concerns that we have is that, because of the highly charged political climate in which the tax proposals were made only six weeks out from an election, a number of the significant elements of it were never properly discussed.

ACTING CHAIR—You talk about the unpopularity of the proposal. I presume you are aware that in fact since this committee has actually been in process and taking public hearings recent polls suggest that there is an increase in the number who support the package over those who oppose it.

Rev. Manning—I would not have any argument with that either. I would expect that when there is such a competent committee and when competent people are contributing to the debate the debate is going to help people to see sense about the whole thing—something that we did not have time to see before the election.

ACTING CHAIR—I would like to clarify what you said in your concluding remarks. You say:

According to the official figures, a greater percentage of the labour force in the 1990s is out of work than at any time since the early 1990s recession, and, before that, the early 1980s recession.

What are you actually trying to say there?

Dr Battin—What we are getting at—and the context here is very important—is that in a lot of the arguments for a GST people were saying that there was a leaking revenue base—somehow the revenue base was falling apart at the seams.

ACTING CHAIR—‘Diminishing’ was the word.

Dr Battin—‘Diminishing’ in your words, Senator. With all of the rhetoric of the election removed, okay, I take your point. The point we are making in that submission is that there ought to be no surprise about this, because the revenue base, the amount of revenue that a government can collect, will correlate with the business cycle—that is, in times of boom it will be able to collect more revenue than it can in times of recession. Please do not quibble with whether the percentage is out by one per cent or something like that. The general point is that the amount of revenue that a government can collect will correlate with the business cycle.

ACTING CHAIR—But is it a fact that a greater percentage of the labour force is out of work than at any time since the early 1990s recession? That does not stand the test of any figures that the government has provided—or anybody else has provided. It is accepted that the percentage of unemployed today is lower than it has been for some 10 years.

Dr Battin—It was true at the time the submission was made. We were talking about unemployment rates then of 8½ per cent.

ACTING CHAIR—When did you make the submission?

Dr Battin—In January.

ACTING CHAIR—There were not 8½ per cent unemployed in January. It was 8.1 per cent, I think you will find.

Dr Battin—Eight point one.

ACTING CHAIR—And now it is 7.5.

Dr Battin—Senator, what point are you trying to make?

ACTING CHAIR—The point I am trying to make is that you are making a statement that a greater percentage of the labour force is out of work today than has been since the early 1990s recession, and that simply is not true.

Dr Battin—And?

ACTING CHAIR—I am quoting out of your—

Dr Battin—Yes, that is right.

Senator CONROY—That represents the demolition of your argument.

Dr Battin—I see. The whole argument falls to pieces.

ACTING CHAIR—Do not listen to Senator Conroy, because he would rather be sitting there than here, I am quite sure. All I am saying is that if you are going to make statements in a submission to this committee you should get your facts right.

Senator CONROY—Have you finished speaking?

ACTING CHAIR—I have one more question about compensation, and even that was prefaced by a political comment, I thought. It says:

Even if the government was sympathetic to the poor.

That implies, of course, that governments are not sympathetic. I presume you are talking about all governments. I am not quite sure about that. Isn't it a fact that, regardless of whether or not there is a GST or we retain the current system of wholesale sales taxes, the issue of compensation means that the government or a government or any future government can determine at any time the level of compensation that is paid to welfare recipients?

Mr Keating—That is true. Compensation is necessary as a result of arrangements in the tax system. The point we are trying to make is that the imposition of a broad based indirect tax of such a regressive nature requiring such a degree of compensation raises all kinds of social and economic questions.

ACTING CHAIR—Regardless of the level of that compensation?

Mr Keating—As we said, part of the question is about the nature of the compensation, and we say the compensation has been patchy. It is about the durability of the compensation, as we have said. For many people the question is not one of how much compensation but for how long. There are a number of questions there. It is not that all compensation is bad but that, wherever possible, if the tax system is progressive and especially on the direct side, there is less reliance on or need for compensation in other areas.

ACTING CHAIR—Can you ever imagine a situation in Australia where there is a bicameral system of parliament—unlike New Zealand where a single House could determine whether a level of compensation was removed or not—where there would be agreement in the Senate that, in fact, compensation should be reduced, knowing the nature of the Senate?

Dr Battin—All the more reason to minimise the need for compensation by having the design of your tax system in place at the outset so that we do not need to rely on compensation.

Mr Keating—It is true that, if you have a system which possibly overrelies on revenues taken from the cash or hidden economy and a proposal that overrelies on possible future surpluses, the upper house could be faced with a position where people will say it is economic necessity, not politics, which requires us to reduce the compensation. The durability of the compensation, the political arguments about those, will always be within the context of those boundaries.

Senator BARTLETT—My question is triggered from the mention of the principles adopted by the bishops. It was touched on earlier. How do you assess the issue of the taxation of food against those principles that were adopted?

Ms Cornish—I think it is fairly clear that taxation of food does not meet those requirements. It does not address those principles adequately and a number of Catholic Church agencies have said so.

Dr Battin—Could I just add something to that? We made the point today—and it is perhaps worth reiterating—that just removing food from the GST will not be adequate, and we stress that point. A GST minus the food will not solve all of the problems by any stretch of the imagination.

Senator CONROY—You would be pleased to know that Anglicare said food, and I think rent, are their bottom lines. For Senator Ferguson's benefit more than anything else, the Labor Party has a longstanding position not to block supply in the Senate. Anything that is bowled up as part of budget revenue measures and those sorts of things is going to be something that we would struggle to actually enforce a position on, Senator Ferguson, but I am sure you are aware of that.

The Prime Minister and the Treasurer during the election and for most of the last six months have claimed that their package is a \$10 billion job generator. I am not sure if you have had a chance yet to look through all of the work that has been done by the modellers whom we have employed, but both Murphy, the Prime Minister's preferred modeller, and Dixon, whom we commissioned—

ACTING CHAIR—The Labor Party's preferred modeller.

Senator CONROY—whom the Senate committee commissioned, came up with roughly, within statistical error, given the size of the model they were using, the same figure in terms of employment outcome, which was negligible, possibly negative. The best case scenario was 30,000, if you put in all the unreal, unruled assumptions. They all agreed simply a function at 30,000; simply a function of spending \$5 billion worth of the surplus—nothing to do with the package as a whole. It was the good old-fashioned 'Here's \$5 billion in a surplus. Let's spend it. It creates 30,000 jobs.' None of the modellers were arguing—they sat next to each other in front of us—that there was a massive increase in jobs in any way from this package. Given the principles that you have put forward, do you believe that the package will be of benefit to the unemployed on the evidence that you have seen and heard so far?

Dr Battin—No, and that will not surprise you, given the tenor of our submission today and the written submission. But as you point out, modellers with different sympathies have found virtually the same thing: that the employment effect will be negligible.

Senator CONROY—Does it surprise you that Treasury have done no modelling on the employment effects?

Dr Battin—They have not been asked to.

Senator CONROY—Funny, that!

ACTING CHAIR—We really must conclude. Thank you very much for appearing before us today.

Committee adjourned at 4.03 p.m.

