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SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

Reference: A new tax system

TUESDAY, 16 MARCH 1999

SYDNEY

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SENATE
SELECT COMMITTEE ON A NEW TAX SYSTEM

Tuesday, 16 March 1999

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

Substitute member: Senator George Campbell

Participating members: Senators Brown, Colston, Harradine and Margetts

Senators in attendance: Senators George Campbell, Chapman, Conroy, Cook, Gibson, Harradine, Murray, O'Chee and Sherry

Terms of reference for the inquiry:

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

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

small companies should be allowed to be taxed as partnerships.

- (f) the potential for tax avoidance and evasion, including an examination of the effects on the cash economy, and the potential impact of electronic commerce on the future viability of a GST;
- (g) the effects on compliance costs;
- (h) the potential for reducing payroll tax, including by providing incentives to create long-term employment and by replacing payroll tax with a carbon tax;
- (i) whether there are other means available for rebating or reducing the indirect taxes or excessive user charges embedded in exporters costs;
- (j) excises, including those on fuel, tobacco and alcohol - identifying the industries which benefit, and to what extent, from the proposed changes to taxes on fuels;
- (k) the effects on interest rates;
- (l) the effects on investment, in both physical and human capital formation;
- (m) the effects on small business;
- (n) the effects on the non-profit sector, including the total amounts of money contributed by the sector, administrative costs, impacts on the viability of the organisations, and the consequent effects on the wellbeing of the community;
- (o) the effects of the GST on particular industries, including:
 - (i) key service industries such as tourism,
 - (ii) the Australian automobile and related industries, having particular regard to the effects of changes to fuel excises,
 - (iii) other 'invisible' export industries, such as education and financial services, and
 - (iv) the international competitiveness generally of Australian industries;
- (p) the implications of not requiring that the GST component of goods and services be itemised on receipts;
- (q) the effects of the taxation reform legislation proposals on rural and regional stakeholders, including:
 - (i) the effects on particular regions,
 - (ii) the effects on rural and regional communities of different tax regimes on fuel - especially the cost of transport of goods to rural communities,
 - (iii) the effects on primary industry of replacing the current sales tax exemption on agricultural machinery with a GST, and
 - (iv) the effects of imposing a GST on food and other necessities of life on remote communities, including Aboriginal and Islander communities;
- (r) the effects of the Government's taxation reform legislation proposals on state and local government administration, including:
 - (i) the effects of the package on future federal-state financial relations and the

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

- (ii) the implications for specific purpose programs,
 - (iii) mechanisms required to lock in commitments made by federal and state governments with regard to the new arrangements,
 - (iv) the implications for future federal-state financial relations of not extending the GST to the necessities of life (such as food, clothing, shelter and essential services) and books, and any adjustments to the proposed arrangements which would be required to federal-state financial relations,
 - (v) the implications of the package for the quality and affordability of public utility services and for the public utility concessions for social security recipients,
 - (vi) the effects of application of the GST, and of changes to tax status, on local government and its activities, particularly commercial activities,
 - (vii) the implications for the delivery of Commonwealth Government services, including employment services, welfare and other social and cultural services, and
 - (viii) the extent to which the proposed compensation arrangements are secure from change to below adequate levels;
- (s) the adequacy of measures to ensure that consumers fully benefit from the abolition of existing taxes;
- (t) the effects of the taxation reform legislation proposals on legal and constitutional matters, including:
- (i) the constitutionality of the proposed mechanism for future changes to the GST, including whether such changes would present a significant hurdle to future increases, or reductions if deemed necessary to stimulate the economy,
 - (ii) the constitutionality of the proposed reorganisation of federal-state tax arrangements and whether the powers and functions of states and territories are materially affected by this reorganisation, and
 - (iii) the effects of the proposals on the cost of access to justice; and
- (u) options for amending the proposed legislation to improve its fairness or efficiency.
- (4) That, in reporting on the matters referred to in paragraph (3), the committee have regard to the reports of the references committees referred to in paragraph (17) and integrate the findings of those committees into its final report where relevant.
- (5) That the committee consist of 7 senators, 3 nominated by the Leader of the Government in the Senate, 3 nominated by the Leader of the Opposition in the Senate, and 1 nominated by the Leader of the Australian Democrats.
- (6) That the committee may proceed to the dispatch of business notwithstanding that not all members have been duly nominated and appointed and notwithstanding any vacancy.
- (7) That:
- (a) senators may be appointed to the committee as substitutes for members of the committee in respect of particular matters before the committee;

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

Committee	Matters for Inquiry
Community Affairs	The impacts of the Government's taxation reform legislation proposals on the living standards of Australian households (especially those on low incomes), including:

- (a) the scope and effectiveness of the proposed arrangements on charities, child care services, aged care services, welfare services, local government human services and all not-for-profit organisations in maintaining the quality and affordability of essential community services, including the implications for the public funding of these services and the implications for the commercial activities of these organisations, and whether unconditional GST-free status should apply to *bona fide* charities;
- (b) a detailed examination of the zero-rating of health services, including an examination of which services should be zero-rated;
- (c) the effects on community sector organisations of changes to their tax exempt status, and of the compliance costs of the proposed tax arrangements;
- (d) the effects of the proposed private health insurance rebate;
- (e) the effects on people with disabilities;
- (f) the effects on public, community and private housing, including the levels of rents; and
- (g) options for amendments to improve the fairness or efficiency of the proposed legislation.

Employment,
Workplace Relations,
Small Business and
Education

The employment incentive and education impacts of the Government's taxation reform legislation proposals, including:

- (a) the scope and effectiveness of the proposed zero-rating arrangements for education in maintaining its quality, accessibility and affordability;
- (b) the effects on employment;
- (c) the effects of the proposed GST treatment on the quality, accessibility and affordability of employment services;
- (d) the effects on education of imposing a GST on, or zero-rating or exempting books and associated education resources;
- (e) the effects on education of imposing a GST on ancillary resources, services and commercial activities, including the effects on overseas students;
- (f) the effects of the proposed changes to the tax system on employment;

	<ul style="list-style-type: none"> (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

BAKER, Mr Paul Jerome, Group Taxation Manager, National Roads and Motorists Association	1809
CASSELL, Mr Brian, General Manager Finance, Rural Press Ltd	1854
de HAAN, Mr Philip, Partner, Cutler Hughes and Harris	1867
FERRIS, Mr Peter James, Financial Adviser, Sisters of Charity of Australia	1867
FIRMSTONE, Mr Adrian John, Chairman, National Indirect Tax Committee, Institute of Chartered Accountants in Australia	1791
GELSKI, Mr Richard, Legal Adviser, Australian Olympic Committee	1842
HARRISON, Mr Stephen Barry Morgan, Executive Director, Institute of Chartered Accountants in Australia	1791
LANGFORD-BROWN, Mr Ian, Director Taxation, Institute of Chartered Accountants in Australia	1791
LEE, Sister Margaret, Bursar, Sisters of Charity of Australia	1867
McGUIRE, Mrs Norah, National Treasurer, Australian Pensioners and Superannuants Federation	1881
MERCER, Mr Michael Andrew, Director, Corporate Services, Australian Olympic Committee	1842
O'ROURKE, Mr Kevin John, Partner, Firmstone and Feil	1854

PEARCE, Mr Douglas Roy Anthony, General Manager, Motoring and Chief Underwriting Officer, National Roads and Motorists Association	1809
REGAN, Mr Raymond Mark, President, National Taxation and Accountants Association	1823
STEVENS, Mrs Deanne Gayle, Group Taxation Manager, John Fairfax Holdings Ltd	1854
THOMAS, Mr Gerard, former Policy Officer, Australian Pensioners and Superannuants Federation	1881
TRAILL, Mr Kenneth Aubrey, Principal Consultant—Tax Reform, Institute of Chartered Accountants in Australia	1791
VENARDOS, Mr George, Chief Financial Officer, National Roads and Motorists Association	1809
WALPOLE, Mr Michael (Private capacity)	1776
WHILEY, Mr William Morton, Assistant Secretary, Combined Pensioners and Superannuants Association of New South Wales	1881

Committee met at 9.08 a.m.

CHAIR—Today the committee continues the inquiry into the proposed changes to the Australian taxation system. The Senate referred the inquiry to the committee on 25 November last year. Today's hearing relates to the second stage of the inquiry.

In this stage the committee is examining the broad economic effects of the government's taxation reform legislation proposals. It will have regard to the fairness of the taxation system, the living standards of Australian households—especially those on low incomes—and the efficiency of the economy and future public revenues. The committee will report on the second stage of its inquiry on 19 April next.

This committee called for submissions to be lodged by 20 January 1999. In fact, the committee is still accepting submissions and so far has received almost 1,400 submissions. Today's hearing is the fifth public hearing to be held by the committee in Sydney in the course of its 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 made by those witnesses who are giving evidence today. Is it the wish of the committee that submission Nos. 829, 850, 854, 1,033, 1,384, 1,392, 1,393 and 1,395 be made public? There being no objection, I declare that those submissions in 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.

[9.11 a.m.]

WALPOLE, Mr Michael (Private capacity)

CHAIR—I welcome Mr Michael Walpole from the Australian Taxation Studies Program of the University of New South Wales. Do you have any comment to make on the capacity in which you appear?

Mr Walpole—I appear in a personal capacity, although I am employed by the Australian Taxation Studies Program at the University of New South Wales.

CHAIR—Mr Walpole, the usual practice, which I am sure you have been briefed in, is that we invite you to give us a short overview of your paper and then make yourself available for questions from the committee. I now invite you to make an opening statement if you wish.

Mr Walpole—What I have to say this morning is really quite simple. I should state at the outset that I am personally in favour of the introduction of a GST in Australia. My concerns lie, however, with the manner of its implementation and the manner of its introduction.

For some years now colleagues and I have been looking at the issue of tax compliance costs, the costs of paying your tax bill other than the tax itself. I have concluded from those studies that taxation compliance costs as they impact on business are particularly regressive when it comes to small business. They impact relatively more severely on small business than on other businesses. Added to that, the introduction of a value added tax or goods and services tax in Australia will follow that pattern and is likely to increase compliance costs in certain areas.

The GST is an expensive tax in so far as compliance costs are concerned. So it is my belief that in introducing such a tax it ought to be kept as simple as possible in terms of exclusions, exemptions and so on, and that particular care needs to be paid to issues such as the turnover threshold at which businesses must compulsorily register, the rules applicable to businesses in terms of how their invoices must appear, what substantiation they must give in support of input credits and so on. I have not gone into all of those aspects in detail, but I am aware that they are concerns. I urge the committee to bear that in mind in coming to its view. That is all I have to say. I would welcome questions.

CHAIR—I am sure the committee will have some. I invite Senator Brian Gibson to start.

Senator GIBSON—Mr Walpole, I am pleased to hear you say that you are in favour of tax reform. Is it not true that there is basically a need for the current tax system to be reformed, that the narrow wholesale sales tax system needs to be replaced with a broader based and lower rate tax?

Mr Walpole—That is my reason for saying I speak in favour of a GST. The problem at the moment is that there is a whole service industry, which has become a larger component

of our economy since wholesale sales tax was introduced, which is not in the tax base. So as I see it, a GST would pick that up.

Senator GIBSON—You would acknowledge also that there is a need for reducing marginal tax rates, particularly for middle and lower incomes, to give people incentive to work and save.

Mr Walpole—Probably, yes.

Senator GIBSON—You have stated also that, to keep compliance costs low, the system needs to be kept as simple as possible. Therefore I would assume that you would be against exclusions from the GST net.

Mr Walpole—Yes, I would be against major exclusions from the GST net. I take it that we are probably talking about food.

Senator GIBSON—Perhaps you would like to go on from there. Two matters have been raised before us: food and books. We would be interested in your views.

Mr Walpole—Food I would see as particularly problematic as an exclusion. It would, I believe, give rise to an increase in compliance costs in a tax which is already quite expensive in terms of compliance costs.

Senator GIBSON—If food were excluded, there are two things to consider: firstly, how would we define it; secondly, in implementing it, under whatever definition, would the compliance costs be accentuated with the small end of the business distribution rather than the large end?

Mr Walpole—To answer your second question first: not across the board. There would be some businesses, I suspect, to whom it would be neither here nor there whether food were in or out. I am thinking of small businesses that I use every month or every few weeks—my local mechanic, and so on—to whom it would not matter. But, for small businesses in sectors where food is a large component of what they deal with, it would be important. So one cannot generalise too much.

Returning to your first question, that is a really tough one: I do not know how you would define food. We could walk through a supermarket and probably agree on a number of things in deciding ‘that is not food’ or ‘that should not be regarded as food for the purposes of exemption.’ But there would be umpteen things that we could not agree on.

Senator GIBSON—In December this committee received from Professor Neil Warren from your group a paper on taxing food. He appended, I think, about 30 pages of definition he got off the net about the UK VAT legislation. He pointed out how ridiculous it was to try to define food, and he used that as an example. Were you aware that he had given that evidence to us?

Mr Walpole—I was aware that he had given evidence, but I was not aware of that particular evidence. It does not surprise me to hear that. I have not researched this, but I

understand that the Canadians have had similar problems in determining what is food and what is not.

Senator GIBSON—Returning to compliance costs, I refer to an article in the *Melbourne Age* of 11 February this year which quotes the Australian Tax Office. It states:

The tax office expects it will cost 0.88 per cent of revenue—about \$300 million—to collect the GST.

This compares with 1.47 per cent in New Zealand and 2.55 per cent in Canada.

And while the tax office will have 4400 staff dedicated to the GST, Mr Matthews said this would be far less than overseas tax collectors.

... ..
"If we haven't learnt from the rest of the world, we haven't done our job,"—

and this is Mr Matthews from the tax office. He continues:

"We have committed ourselves to delivering the most efficient tax system and to be better than anywhere else in the world."

Were you aware of this evidence from the tax office?

Mr Walpole—I was not aware of that, no.

Senator GIBSON—One of the points they make in this article is that elsewhere in the world, particularly Europe, because of the exclusions, one would expect the compliance costs to be higher. I think this committee is considering having the tax office back before us before completing its deliberations. So, thank you for your information.

Senator CHAPMAN—In your paper you make the point that all taxes are regressive in terms of compliance costs. So I suppose it is a matter of determining which are the most efficient taxes. Would that be correct?

Mr Walpole—That would be right, yes.

Senator CHAPMAN—In terms of indirect tax, for efficiency, where would you rank the GST compared with other forms of indirect taxation?

Mr Walpole—I would rank it quite highly in terms of efficiency.

Senator CHAPMAN—You also refer to research you have done in relation to overseas countries, one of which is New Zealand. You make the point that your research indicates that small businesses with a turnover of less than \$30,000 have compliance costs greater than the revenue that is raised. Is that an accurate summation of your conclusions?

Mr Walpole—That would be the essence of it.

Senator CHAPMAN—You would be aware that one of the government's proposals is to exclude any business with a turnover of less than \$50,000 per annum.

Mr Walpole—Yes.

Senator CHAPMAN—Would that obviate this problem which you have identified in New Zealand in terms of the compliance costs?

Mr Walpole—I am sure it would go some way towards it. I have to say that I have not researched our specific turnover threshold and looked at compliance costs in relation to that. It would certainly go some way; it might be a bit low. But these are thumb sucks; the threshold might be a bit low, but I am sucking my thumb.

Senator CHAPMAN—Your paper also refers to costs and benefits in relation to compliance. Among the benefits you have identified is the cashflow a business will have in terms of collecting the GST before it has to remit the GST and how that, to a degree, will offset some of the compliance costs.

Mr Walpole—Yes, indeed it does, depending on the business.

Senator CHAPMAN—Another benefit that has been raised, particularly in relation to small businesses, is the requirement for improved record keeping and the advantage that will give a business in terms of financial management; how that, in turn, may well improve the bottom line of a business. Have you done any work on that aspect?

Mr Walpole—I have not done any work on that. I am aware of the argument. Forgive me for putting it like this, but I call it 'the cod liver oil argument': 'take this; you may not like the taste, but it will be good for you'. But I am aware of the argument and I can see that there obviously would be benefits from better record keeping. Some businesses will not like it, of course.

Senator CHAPMAN—But, if it does improve the bottom line as a result of better financial management—

Mr Walpole—Yes, then it is hard to argue against it.

Senator CHAPMAN—then the compliance costs again would be very greatly offset, wouldn't they?

Mr Walpole—It would be money well spent, I guess.

Senator MURRAY—Mr Walpole, the great advantage of your material, I think, is that you are able to provide us with an international comparison. Since this country has no experience of a VAT, that is very important.

I will start first with confirmation of what Professor Warren said. In his ATAX report, *Food: Staple of life or staple of the GST*, which now is a widely referred document—and I do not want to misrepresent his views—he said, 'What is probably reasonable to conclude is

that making food GST free can only worsen the compliance costs for businesses, especially small businesses.’ Intuitively everyone would have that view, and you have clearly stated that view.

But both you and he have cautioned that—and he used these words:

Just what can be learnt from these international comparisons about the design of a VAT is not clear.

In other words, the information available has weaknesses. At page 16 of *Food: Staple of life or staple of the GST*, he said:

It would therefore appear from the United Kingdom evidence that the burden of compliance of a GST, in aggregate, is not unduly serious.

I will draw your attention to some of the comparisons, and perhaps you can tell me where they are weak and where they are not. I draw your attention to the diagram at page 8 of your article *Policy* document of summer 1996-1997, entitled ‘Figure 1, Comparison of gross compliance costs as a proportion of taxable turnover’. There are a number of questions I want to ask as a result of that. Canada is illustrated there with a star.

Mr Walpole—Yes.

Senator MURRAY—It has the lowest initial compliance costs and it has the lowest overall compliance costs, and yet it differentially taxes food; in fact, it taxes food at zero.

Mr Walpole—Yes.

Senator MURRAY—You might like to write these down because I do not think they are easily available. In New Zealand the general rate is 15 per cent and the food rate is 15 per cent; in Canada it is 10 per cent and food is nought; in the United Kingdom it is 17½ per cent and food is nought; in Germany it is 15 per cent and food is seven; in the Netherlands is 17½ per cent and food is six; and in Ireland it is 21 per cent and food is nought—and Ireland is not in that graph.

If you look at that graph, the highest percentages in commencement are New Zealand and the United Kingdom; and the lowest percentages I outlined were Canada. You made a point of emphasising in your articles the key differences between the United Kingdom and the New Zealand systems, and you refer to us adopting a New Zealand style GST. What explains the differences with these compliance costs, and how is it affected by what you refer to as ‘a New Zealand style VAT’?

Mr Walpole—What I refer to as ‘a New Zealand style VAT’, for clarification, is one that is broad and covers everything. What explains these differences I am not sure because of the dangers in drawing these international comparisons. However, it may well not be the food exemption or the food exclusion that gives rise to, for example, the lower compliance costs in the UK as against those in New Zealand. It may well be something else. It may be the turnover threshold, and so on. So I cannot explain it clearly. Food might be the reason, but it may equally easily be something else.

Senator MURRAY—On page 3 of your submission, you list the net compliance costs for the United Kingdom of 2.3 per cent and for New Zealand of 7.3 per cent. On page 7 of the *Policy* article to which I have referred, you said that Canadian compliance was lower than either the United Kingdom or New Zealand. That means that both the United Kingdom, which taxes food at zero, and Canada, which also taxes food at zero, have lower compliance costs than New Zealand. I suggest to you that the evidence that differentially taxing food increases compliance costs is not there; it is just not there on the face of the figures, the percentages and the graphs that you have given us.

Mr Walpole—My response is that I can see that argument. But it seems to me that the explanation might be something else; it might be something other than food. It seems to me to be commonsense that excluding food will lead to complexity; it will lead to a business having to deal with this area of its taxation in a different way to everything else that is being put into the business or put out of the business.

Senator MURRAY—I agree with you that intuitively it should; that is commonsense. But the proposition I am putting to you is that, in the nature of the evidence available to us in your paper—and, indeed, in Neil Warren's paper—there is no statistical evidence which confirms that exempting or differentially rating food will result in higher compliance costs. I have your figure right in front of me, and I have quoted you the percentages you have given me.

Mr Walpole—I would have to accept that.

Senator MURRAY—I would also put to you your emphasising of regressivity. I think there is no-one, either supporter of or opposer to this move, who would disagree with the regressivity argument. It seems to me that regressivity is highest on the poor and small businesses. Those are the two categories where you can really identify it. But the effects are quite different. Regressivity on the poor provokes the equity principle; regressivity on small businesses provokes the simplicity principle. As a tax expert—and, I presume, one with a normal social conscience—how would you rank equity versus simplicity? If you had to, as we do, play off one against the other, where would you put the emphasis?

Mr Walpole—I would always rank equity more highly than mere simplicity. It is difficult to run an objective academic tax argument when one brings in the other social issues. But it seems to me that the equity issue could be addressed in another way, without achieving your redistribution necessarily in the indirect tax system. The equity might be achieved by way of diverting resources to those in need but outside of the tax system.

Senator MURRAY—The compensation argument, in other words.

Mr Walpole—Yes.

Senator MURRAY—Let us go to computerisation. Anecdotal evidence is that Australia is highly computerised. Did the initial compliance costs in New Zealand, which were very high, relate to a lack of computerisation in small businesses; and do we have a similar profile in Australia, say, compared to the lower initial compliance costs for the Netherlands,

Germany or Canada? Is there likely to be a much higher kick-in point which would require higher compensation for small businesses than that proposed by the government?

Mr Walpole—I do not really have a view on the kick-in point or the level of the kick-in point. I would say that we as a nation are probably more computerised in 1999 than New Zealand's small business could have been when VAT or GST was introduced there; we would be further along the track. I do not really think I can go much further than that.

Senator MURRAY—But, if they were not highly computerised, your initial compliance costs would soar. Is that the point you are making?

Mr Walpole—I think 'soar' might be putting it too strongly. I would imagine your initial compliance costs would be likely to be higher. But initial compliance costs are not necessarily something that could be mechanised out of the way, if I could put it that way. Involved in initial compliance costs there is the setting up of the business accounting structures to deal with the new form of taxation and the learning curve of the people in the small business, primarily the business owner, in getting that system right and understanding it.

I would think computerisation would help, but I would hesitate to say that it would help a tremendous amount. There are going to be initial compliance costs whatever changes are made to the tax system. I do not really think initial compliance costs are our primary concern. It is ongoing systemic costs that I was more concerned about.

Senator MURRAY—If we deal with ongoing systemic costs, would it be your view that the wider the exemption—such as education and health, and those proposed exemptions, such as books and food—the easier it is to deal with it? In other words, the less definitions within a category you have, the easier the compliance. Do you have any research or views on that?

Mr Walpole—I have a view; I have no research. Yes, if you make your exemption categories broader, wider, that will be more simple than multiple small exemptions in narrow categories. It will be simpler.

Senator MURRAY—Do you have any research or information on compliance costs in Ireland, which has a 21 per cent general rate and a nought per cent food rate?

Mr Walpole—No, I do not have anything on Ireland, I am afraid.

Senator MURRAY—Even with a name like 'Walpole'?

Mr Walpole—I do not. I even visited there recently, but I am afraid I did not pick up any of this kind of information. I would say, however, from my consultations with the revenue people in Ireland, that compliance costs did not seem to be a big issue for business in Ireland, to my surprise. It may be accounted for by the fact that their economic boom is such that they are so busy doing business that they are not as concerned about their compliance costs. They are quite sensitive to them in a less formal way than us, however, and they do keep an eye on them.

Senator MURRAY—Just switching direction for my last question, I understand from what has been said to me—and you will need to tell me whether it is true or not—that at an ATAX conference you said taxing trusts was crazy. Is that what you said? Did you say anything similar to that?

Mr Walpole—No. I offered the argument that reform to the taxation of trusts may introduce as many complexities in that area—that the medicine of taxing trusts the same as companies might be worse than the malady of taxing trusts differently to companies. Once again, one would have to have various classes of trusts which would have to be treated differently. That would mean that you would have to have tax experts who were aware of both regimes and could apply both the ‘same as companies’ type of tax regime to trusts and the ‘different from companies’ tax regime to trusts. That was the concern I was expressing there.

I might add that my views were overlaid at the time by some extremely complex legislation that had been introduced into parliament relating to dividend streaming and the flowing through of franking credits in trusts, which I found particularly difficult to get on top of. I think many practitioners did, too. I am going rather beyond my brief on this topic in discussing that.

Senator MURRAY—Thank you.

CHAIR—Senator O’Chee.

Senator O’CHEE—Mr Walpole, my colleague suggested there was no statistical basis for saying that you would suffer higher compliance costs by exempting food. Surely one of the ways we can measure compliance costs is to look at the number of officials it takes to collect the tax, because that is a reasonable measure of compliance and it is in fact currency neutral so to speak. You would be aware that the Australian Taxation Office says they believe the cost of collection will be about \$300 million in Australia. Do you think that is reasonable? Is 0.88 per cent of revenue reasonable?

Mr Walpole—I understand that is Mr Matthews’s figure that was read to me. There is a point I need to clarify. Are these compliance costs or are they administration costs?

Senator O’CHEE—Collection costs.

Mr Walpole—That is quite a different thing, Senator, because what I have been talking about has been the compliance cost seen from the perspective of the business in doing its paperwork and dealing with the Taxation Office. The administration costs are the costs incurred by the tax office in dealing with the business, and of course, those are costs which are borne by the taxpayer too—but they are not borne as directly as filling in returns and various other compliance activities. Having said that, I am really not sure whether 0.88 per cent is right or not. I could not say one way or the other. It sounds like quite a cheap tax to collect if that figure is correct, despite additional personnel. I am not saying that is not correct; I am saying that it would be very attractive if that level is correct.

Senator O'CHEE—Basically what Mr Matthews is saying is that they are going to merely require one Tax official for every 390 businesses. It is not unreasonable to say that that is because there are fewer things to check when you have a broadly based system with hardly any exemptions? Isn't that the case?

Mr Walpole—Yes. My understanding is it would be a self-assessment system with the primary activity being an audit activity. Of course that is relatively cheap to administer because all one needs is many field staff putting—I hesitate to put it this way—the fear of God into businesses which will hope that they are complying properly. But administration costs and compliance costs are two sides of the same coin. The lower the administration costs under a self-assessment system, often the higher the compliance costs borne directly by the taxpayer in their business.

Senator O'CHEE—Yes, I was going to get onto that, because whatever the cost to the government is to verify and collect will be a mirror of the cost to the taxpayer to comply and remit? Isn't that so?

Mr Walpole—It is not a direct reflex, Senator. The administration costs can be low whilst the tax compliance costs in the business can be high. That is the likely outcome of GST—easy to administer, but business is very busy complying.

Senator O'CHEE—But in relative terms, we are talking about a system which requires more tax office staff to run it; that is going to be more expensive to both the taxpayer and the collector than a system that requires few people to run it, isn't it?

Mr Walpole—Yes.

Senator O'CHEE—And so when you compare one official for 390 businesses in Australia versus Britain's one for 149 businesses, is it a reasonable inference to say that not having the exemptions that the UK has will make the system simpler for both the taxpayer and the collector?

Mr Walpole—It probably is reasonable, yes.

Senator O'CHEE—Thank you.

Senator CONROY—Now that we have sorted out the difference between collection costs and compliance costs, I would like to focus on the compliance costs. You have a string of papers here. In page 3 of GST Law No. 11 you state:

Aside from the regressivity of a VAT/GST, we also noted in our survey of the literature that the New Zealand style VAT, which is what we are about to adopt, looked comparatively expensive in terms of compliance costs.

Mr Walpole—Yes.

Senator CONROY—Could you expand on that briefly?

Mr Walpole—Very little to expand on, Senator. It appeared from our survey that New Zealand, whose system we were likely to copy, had, relative to the revenue that was being collected from small business, high compliance costs—7.3 per cent I think the figure was. And that seemed high when compared with, say, the UK.

Senator CONROY—And you would expect that to be reasonably the same here in Australia?

Mr Walpole—I would hesitate to say that ours would be as high, I think because of the differences in our economies. There are economies of scale.

Senator CONROY—For a small business.

Mr Walpole—For a small business and, in fact, for an entire tax system. It could be that there are more small businesses in New Zealand—relatively speaking.

Senator CONROY—You make reference to the regulation impact statement in the bill, saying:

It is interesting, nevertheless to note that the Regulation Impact Statement (RIS) accompanying the main GST Bill suggests that GST's net compliance costs . . . will be 3.9% of the revenue . . . On this basis, GST will be a good alternative to the WST.

You then go on to make the point that the RIS does not disclose on what assumption these costs are based. Do you think that for them, as in the RIS, to assert that there will be a slight net increase in compliance cost once the GST replaces the other taxes is a reasonable assumption? Is it a slight increase going from 70,000 businesses to a couple of million?

Mr Walpole—Overall there might be a slight increase. The difficulty I have with this is that in coming to that conclusion the Regulation Impact Statement has netted off the cost of no longer complying with a number of state taxes—

Senator CONROY—Yes, I was going to come to your footnote.

Mr Walpole—on the basis of assumptions that are not clear to me. I am not sure where those costs of complying with the state taxes have come from. If our figures—that is, mine and the ATAX team's—are correct that WST was costing 4.7 per cent for small business, then 3.9 per cent would be very attractive indeed.

Senator CONROY—But is it realistic? I mean, on any of the international studies and in your own knowledge, is it realistic bearing in mind the Treasurer has been prepared to make assumptions like, 'There is 100 per cent pass through of the savings on day one'? Do you believe it is a realistic position?

Mr Walpole—Probably not, Senator, probably not.

Senator CONROY—You make the point in the footnote on your previous page:

It should be noted that I have never before encountered a definition of gross compliance costs which takes into account the savings from the abolition of other taxes. Such a definition is apparently used, however, in the Regulation Impact Statement . . .

Mr Walpole—Yes. The Regulation Impact Statement consistently refers to the net compliance costs as being the compliance costs after all the other taxes that are going to go have gone. That is a most unusual way of describing the net compliance cost. Normally net compliance costs are the compliance costs for the business after netting off the tax flow benefit to the business and, in our survey, the tax deductibility of those costs to the business. That is why I took issue with the Regulation Impact Statement.

Senator CONROY—You make the point also that a GST will have substantial initial and recurrent tax compliance costs. In one of your policy papers attached further on you make the point that:

The overall burden is considerable, and the signs are that it does not settle down over time.

So there are high recurrent costs that do not settle down over time, putting aside the initial costs which, as other economists who have come before us have said, will help bring some small businesses into the computer age. I think it has been described as that. As you described it, they may not be happy about having to do that. But it is an important point when you say that international experience shows the recurrent compliance costs from the GST do not actually come down.

Mr Walpole—It has high compliance costs. The recurrent costs will level out at, in my view, a fairly high level. You will find that the other jurisdictions, perhaps unsurprisingly, continue to tinker with their GST and their VAT, particularly at the level of the turnover threshold for small business because compliance costs and compliance are an issue, and an ongoing issue.

Senator CONROY—You also go on to say:

There are indications that the compliance costs of the current system of WST are lower than those likely to be encountered with the introduction of a GST. Introducing a GST might be deemed acceptable—from the compliance cost perspective—if its introduction caused a decrease in the administrative costs of the system. Again the international research suggests this would not be the case; the costs of administering a GST system are likely to be greater than those for the current WST.

Mr Walpole—That article was written some years ago. I might revise my view a little on that if the suggestion by the Australian Taxation Office is that they can get those administration costs down as low as we have been told. But intuitively under a GST admittedly the taxpayers are assessing themselves, but you still have this ongoing auditing process where the taxpayers, if the GST is to be complied with, will have to be checked upon, and checked upon relatively frequently. I think in the UK VAT audits come through from customs and excise about once every three years or so. That kind of audit activity is expensive for the tax office and it is expensive for the business to deal with the tax office.

Senator CONROY—It would not shock you if the tax office were perhaps being conservative in their estimate of costs though, would it, for a forecast?

Mr Walpole—I do not really have a view on that.

Senator CONROY—You also talk about psychic costs. I was interested if you could give me a quick run-down on psychic costs. I have heard about dynamic benefits. I was interested in your psychic costs.

Mr Walpole—Psychic costs are essentially anguish, the anxiety felt by taxpayers in dealing with their tax affairs. They are difficult to quantify, if they can be quantified at all. Under a self-assessment system, the psychic costs are often relatively high because the business constantly has the threat of an audit hanging over it and the business has to do a lot of the work. There is no point reached at which an assessment is issued and the business can say, ‘Right. Well, I’ve got that off my hands. I’m off the hook,’ as it were.

Senator CONROY—On page 9 of that paper you challenge the assertion made by Williams in 1996. You say that a recently made assertion that the replacement of the WST with a GST in Australia:

‘must carry with it advantages of lower compliance costs . . . and lower administrative costs’ . . . and may be misleading and is open to challenge.

Mr Walpole—Yes. I felt that Williams was somewhat too glib in making that statement. The GST is not an easy tax to comply with from the point of view of small businesses. Without tangible data, it is difficult to say as sweepingly as Williams did that there is likely to be an overall drop in compliance costs. In fairness, it must be accepted that if some state taxes do go some businesses who bear those state taxes will possibly enjoy a diminution in their compliance costs. But the type of state taxes that are being spoken about are not ones which have particularly high compliance costs.

Senator CONROY—You make the point that there is no major impact on the existing compliance costs. So everyone who is currently complying with the raft of taxes is not going to be any better off. In fact, you go on to make a number of points about why those compliance costs are going to increase because of regular auditing, cashflow and all those sorts of things. So all the existing business, despite the claims, are not going to be better off with lower compliance costs. In fact, they are going to be marginally worse off. Then there are all the new businesses who will be dragged into the system who, by definition, have to be worse off. There may be a net figure that Treasury or someone else can try to pull out which says that the economy is better off but, in terms of compliance costs to individual businesses, I am looking to find a case where, on your work, somebody is better off.

Mr Walpole—In terms of your last statement that there will be a whole lot of new businesses brought into the tax system complying whereas they never had to before, that is very true. There will be small businesses brought in that did not really have to deal with the sales tax system and now they will because we will have a goods and services tax system. It is hard to think of many businesses who will have lower compliance costs simply because of putting a GST in the place of stamp duty on contracts involving business property or financial institutions duty. It is difficult to see that many businesses will be better off.

Senator CONROY—When you were talking about psychic costs, you also refer to behaviour, not necessarily irrational, that would see some businesses opting out of the system altogether and moving into the black economy. This tax system is designed, we are told extensively and loudly by all its advocates, to clamp down on the black economy, but you are suggesting that companies will consider and possibly go, for rational or irrational reasons, into the black economy. Is that right?

Mr Walpole—That is right in some part. They will not necessarily go into the black economy, but it is my theory that businesses that perceive themselves to be adversely impacted by the costs of complying will choose not to—

Senator CONROY—That is by definition the 1.2 million that are being dragged in. They are all worse off under the compliance. That is a big sample to be saying, ‘There’s your pool of possibles.’

Mr Walpole—They are not all necessarily worse off. For example, under the new system they will be getting input credits which might be credits on things that they used to pay wholesale sales tax on. They will also get potential cashflow benefits from being part of the system. But that having been said, the overall effect seems to me to be that some businesses will take the view that complying with the system is more burdensome than not complying with the system. They will—this is anecdotal; I have to stress that—choose not to reach the turnover threshold. By that I do not mean that they will cheat to stay below it.

Senator CONROY—That is different from what I am asking you about.

Mr Walpole—If you are asking me about the black economy, one of the arguments that runs—I do not have a particular view on this—is that the GST will be immune to the black economy. In fact, the GST gives some businesses, if they are criminally inclined, a double incentive.

Senator CONROY—Yes, an incentive. It increases by 10 per cent the incentive to do it.

Mr Walpole—It does do that because they will have an incentive to avoid the income tax by going into the black economy. They can also avoid the business of dealing with the GST by going into the black economy. On the other hand, for the tax administrator, it gives the tax administrator two sets of books to audit. There are the GST books and the income tax books. The GST, because of its requirement of invoicing and record keeping, gives the auditor more to audit. There is more of a paper trail to follow. It remains to be seen whether the GST does have a major impact on the black economy. There are good reasons why it would not. On the other hand, under the GST, businesses which are in the black economy at least are paying tax on their inputs.

Senator CONROY—I have one last question. Would you agree that the number of rates is critical to the level of compliance costs—in terms of zero ratings and 10 per cent and others—that compliance costs are greater the more rates you have got?

Mr Walpole—It seems logical that a multiple differential rate GST system would be more complex and difficult to comply with than a single rate system, yes.

Senator CONROY—Do you think there is an optimal number? Are there any studies that you are aware of? I read a study that said that once you go past three rates within a GST it becomes administratively complex as well as more compliance complex than, say, the WST is as it stands, and I am trying to remember whether or not it was a study that you did with one of your colleagues.

Mr Walpole—That is not one of my studies, and I am not aware of that figure.

Senator SHERRY—Just flowing on from the issue of policing the black economy and taxes like the VAT and GST, Senator O’Chee referred earlier to the UK. I am not quoting his exact words, but he said that exemptions—and there are exemptions in the UK—from the VAT lead to additional staff. Could it not be equally—and I would argue, more strongly—put that additional staff are needed to police the VAT, in the case of the UK, to check on business records to make sure that they are kept properly and in fact the tax is paid? The VAT man or woman has a fairly low popularity rating in the UK as a result.

Mr Walpole—I am not sure which of those issues to respond to. Auditors are not popular anywhere, and implicit in this GST system is an expanded audit function, yes. So there would be more staff needed to do that. Presumably some staff would be taken off other things that they are doing under the current system in order to provide the necessarily staff, but I am sure that the complement in the ATO would have to be expanded considerably under GST.

Senator SHERRY—The bottom line is that the overall compliance costs of a GST vis-a-vis a WST, wholesale sales tax, are greater. Do you agree?

Mr Walpole—I would say so. What I have tried not to be drawn on is how much greater. I might add that the bulk of the businesses having to comply with WST and to pick up the bulk of the costs seem to be medium and large businesses rather than small businesses, and that I think is of concern.

Senator SHERRY—There are, I think, 75,000 businesses directly involved in the collection of WST at the present time. Under GST that expands to, I think, 1.6 million in the second or third year. That is a vast increase in the number of businesses involved and, obviously, a vast increase in the number of businesses which will have additional costs of collection.

Mr Walpole—Yes, and much of the vast increase would be constituted by sectors that did not have to deal with WST—that is obvious—but by sectors that would include small business, service industries, food industries and so on.

Senator SHERRY—Would the additional costs of collection for those small businesses, which you acknowledge, be passed on, at least in part or in whole, to customers or would they be absorbed by the businesses as a reduction in profit?

Mr Walpole—That is hard to say. Some of them would have to be passed on.

Senator SHERRY—Thank you.

Senator GIBSON—Mr Walpole, we have had evidence that for people in small business GST compliance is simple. New Zealander and Australian representatives are coming here and basically advising us that a small business simply has to go through their sales figures on their bank statement every three months and that one-eleventh of that is GST. They then have to go through the bank statement for their purchases, excluding labour, for the three months, and one-eleventh of that is GST they have paid out. They then work out the difference. They have said that this process—which, as you know, occurs every two months in New Zealand and every three months here—only takes 10 or 15 minutes. I am just try to reconcile that evidence of the practicalities of real businesses doing that with that 7.3 per cent estimate from, I think, a 1992 paper you quote. Do you think that New Zealand evidence of 1992 should be revisited?

Mr Walpole—All of the surveys have their flaws, including our own, and all of them can be revisited. I am not aware of anything in particular wrong with that survey which suggests that it should be revisited or that it is wrong, but the 10 or 15 minutes that is being spoken of is extra; that is an activity that was not going on. And the question one is inclined to ask is: is it going to be 10 or 15 minutes? I accept that the New Zealand survey looks high, but I do not know of any particular reason for which we should disregard it.

CHAIR—Thank you very much, Mr Walpole. We appreciate the assistance you have rendered the inquiry.

[10.07 a.m.]

FIRMSTONE, Mr Adrian John, Chairman, National Indirect Tax Committee, Institute of Chartered Accountants in Australia

HARRISON, Mr Stephen Barry Morgan, Executive Director, Institute of Chartered Accountants in Australia

LANGFORD-BROWN, Mr Ian, Director Taxation, Institute of Chartered Accountants in Australia

TRAILL, Mr Kenneth Aubrey, Principal Consultant—Tax Reform, Institute of Chartered Accountants in Australia

CHAIR—I welcome representatives of the Institute of Chartered Accountants in Australia. My list has Stephen Harrison as the CEO. Do I assume from that, Mr Harrison, that you are the one that is leading the group?

Mr Harrison—Correct, chairman.

CHAIR—The format is simple. We invite you to make a short statement addressing your submission in synopsis or overview and to be available, if you are kind enough, for questions from the committee.

Mr Harrison—The Institute of Chartered Accountants in Australia welcomes the opportunity to appear before the Senate Select Committee on a New Tax System. The institute is a body representing Australia's peak business and finance professionals. It has some 32,000 members in public practice, commerce, academia, government and the investment community. Its members are advisers to businesses at all levels—from small and medium sized businesses to the largest global corporations. We, therefore, represent a wide cross-section of the business community.

The institute has strong links with the small and medium enterprises sector. Chartered accountants are the leading advisers to SMEs in Australia and, accordingly, our representations on taxation reform have been prepared with a strong emphasis on tax reform issues for SMEs. As part of our contribution to the tax reform debate in late 1997 and early 1998 the institute researched the views of SMEs on tax reform, and our findings reinforce the degree of concern that small business and its advisers feel in relation to the compliance burden that confronts them and the adverse impact of government regulation on the SME sector. The views of the institute has been developed from the research we have carried out and through the institute's national council, national committees and branch network in each state and territory of Australia.

The institute has long been a strong advocate for tax reform in Australia and has taken an active role in promoting that objective. It has been a consistent supporter of a GST for over 20 years and has argued its case before governments of all persuasions. What is important for tax reform is the wider picture: the competitiveness of our country and the uncompetitiveness of the present tax system. In our opinion, if we do not now address the

fundamental issue of tax reform with the introduction of a GST with minimal exemptions, the opportunity will be lost for a long time. The fact is that, whilst we fiddle, Australian competitiveness burns.

The institute itself is apolitical on the issue of tax reform. We have always supported policies which support wholesale tax reform, including a GST with minimal exemptions. We are at the coalface—with 600,000 small to medium sized enterprises that our members serve. We are aware that, if exemptions are introduced, it will be our members and the SMEs that they advise that will have to bear the brunt of additional compliance costs that such additional exemptions will create.

Chartered accountants are anxious about several things. We are anxious that, unless we resolve this GST issue soon, our members and their clients will be swamped with legislative change that will be imposed too quickly to be systematically and efficiently integrated into their business processes. This time compression issue is a vital one. We are anxious as to the potential for complexity and the associated increase in the costs of compliance, especially for small business, should there be further goods or services that are not subject to the fundamental application of a GST.

We are anxious that we currently have a business climate that is non-competitive against other countries in our region, especially where exports are tax free. Our goods need to reach their export markets without the impost of taxes that make them uncompetitive. Domestic industry and small business need to be able to thrive free of the bureaucratic compliance costs that our present tax system creates.

In its regulation impact statement for the introduction of a GST, the government has stated one of its aims as being to minimise compliance cost to business, including small business. The institute supports this aim as compliance costs are generally regressive because they impact disproportionately on small business. In other words, it costs small business proportionately more to calculate, collect and remit taxes to government than it does larger businesses.

With the introduction of a GST one matter of significant concern to the institute is the reality that the more items of supply that are not subject to the fundamental application of the GST then the more there is an increase in the complexity, the documentation and the cost of compliance. In practical terms, by minimising the number of GST-free or exempt supplies, there are fewer demarcation disputes between taxable and GST-free goods and services. Minimising the number of exemptions as well as applying a uniform rate of GST enhances the chances of ensuring a successful and business friendly GST.

Major tax reform such as proposed by the introduction of a GST as part of a new tax system carries with it an obligation to ensure that all taxpayers, especially those on low incomes, are adequately protected from its impact. However, in so doing, it is important that fundamental criteria such as certainty, simplicity and the lower costs of compliance, which are all important to taxpayers, are melded into the overall tax system. Accordingly, it is submitted that as part of this process the needs of taxpayers on low incomes are best addressed and implemented through the medium of compensation and not by the provision of concessions or exemptions from a GST. To address the position of food, clothing, shelter and

essential services, for example, by way of a concession or exemption from a GST, as has been mooted, carries with it the propensity to encounter the definitional and structural problems that have bedevilled the practical operation of our existing wholesale sales tax.

In summary, the Institute of Chartered Accountants is in broad support of wide ranging tax reform, including as one part of the overall package of reforms an invoice credit system such as a goods and services tax. A goods and services tax should be a single rate tax on as wide a range of goods and services as possible and with as few exemptions as possible. Compensation for the disadvantaged should be provided separately and should not be included as a concession within the GST legislation. To do otherwise would be to impose additional complexity in the GST legislation with consequential additional compliance costs.

Compliance costs are a major concern of all tax legislation, especially for SMEs. This concern extends to the GST and the implications of the legislation in this regard should not be underestimated. Effective implementation of a GST is vital in the next 15 or so months. It is, therefore, imperative that adequate measures be provided by government in the area of public and business education and that the legislation be passed soon to allow sufficient time for taxpayers to plan, to educate staff, to introduce hardware and software upgrades at the same time as dealing with the year 2000 issue and to update accounting systems. Business needs time for a smooth introduction of this new tax regime by 1 July 2000. Thank you.

CHAIR—You have emphasised the need to enact this legislation soon. Obviously, you do not want the parliament to get the legislation wrong. Is that an argument for putting the date of operation back so that the parliament can properly consider the legislation, Mr Harrison?

Mr Harrison—I guess 1 July 2000 has a number of attractions and one can debate whether those attractions overwhelm the process of debate and the time to get the legislation right. Certainly the legislation should be right, but it appears to us that 1 July 2000 would be a very appropriate date on which to introduce that GST.

CHAIR—You have talked about the time compression issue being a vital one—I think they were your words when you were referring to the compliance issues facing small business under a new tax regime. Do I detect some sympathy for the argument put to us by the Taxation Institute that these changes come at an inappropriate time—these are my words, not theirs; I am trying to synthesise their comments—because of business dealing with the Y2K problem and because, as the Institute of Taxation styled themselves, they are the experts at detecting the devil in the detail and there are a lot of little devils in the detail here and by the time business comes to grips with them there will be problems of transition and compliance at the introduction. As a consequence, the introduction should be put back, if you agree with this package, by six to 12 months in order to sort out those issues.

Mr Harrison—The institute's position is that we need tax reform and we need it as soon as it can be sensibly implemented. There are certainly a lot of devil in the detail. But, on the basis that the timetable originally proposed of the legislation being passed by June of this year, we believe that there is an effective time within which the significant changes could be introduced by business. No time for major tax reform is ever a good time. There are always going to be many challenges facing business and putting it off will simply provide the

opportunity for other major changes to be introduced which business will have to cope with as well.

CHAIR—I think we all agree that there is urgent need for tax reform. Whether these bills represent tax reform is a matter of judgment, not a matter of fact, Mr Harrison. I just wonder though does your institute support the 16 bills in every clause, subclause, placitum and detail and ask the parliament, therefore, to just tick them, or are there provisions in the bills that you think should be drawn to our attention for consideration and amendment?

Mr Harrison—I think the best I can say in answer to that is that we support the holding of this inquiry, which is to look at the details of that legislation. I expect it would be very difficult to argue in any case that legislation is perfect in every line. If it were, why would we be here appearing before this inquiry. There are issues to be debated and addressed—we accept that.

CHAIR—I am asking your institute. Do you support the legislation? Have you looked at each of these clauses, subclauses and placita of the 16 bills and can you inform us whether you think in your professional judgment they are adequate for the task they set out to do?

Mr Harrison—If you ask me to comment on every word on every line of detail of the legislation, I could not suggest it is all perfect and therefore should proceed without change. If you ask me to go through every line and give you comments on each line and each item, I could not do that—not here.

CHAIR—But could the institute provide that information to us?

Mr Harrison—On every line and every detail?

CHAIR—The reason why I ask is you are the Institute of Chartered Accountants and you deal with the tax act and advise your clients constantly. We in the parliament are going to have to go through each of those clauses and vote on them. We would value your professional advice as to whether you think the purpose the government has set for itself has been translated well enough or whether there are constructive changes to any of those bills or clauses within those bills that could be made to implement the legislation more effectively or to make the compliance burden on clients of your members less, or whether there are any other professional changes that you might consider.

Mr Harrison—I think Adrian Firmstone is the expert on indirect taxes. I will ask him to provide you with a comment.

Mr Firmstone—The legislation does, I think, an excellent job of bringing together the tools necessary for the operation and implementation of this tax. That does not mean it is perfect; it is not. We at the institute are still in the process of examining the detail for the purpose of assessing the extent to which we see problems in the detail and how we should best address those problems. We have already concluded that for the great bulk of people, the legislation works and achieves an objective which is consistent with our submissions. There is, however, some detail which we are still in the process of examining and which we are still developing a position on in relation to not only the problems—we have identified

the problems—but also how one deals with resolution of the problems. We are still in that process. We have not finished our deliberations as to precisely how we would recommend how the problems we have identified should be addressed as to increase the integrity of the package and to maintain it as a simple, easily compliable piece of legislation.

CHAIR—Mr Firmstone, when might you be in a position to advise us on what you think are the changes that should be made?

Mr Firmstone—I think we will have developed our position as to the range of issues which we think warrant close attention. We will be finished that within a week or two.

CHAIR—Would the institute then be kind enough to let us know where changes should be made?

Mr Harrison—We will take that question on notice.

CHAIR—Do you see the problem we are dealing with? We are going to have to decide these things. We do look to organisations such as yours that are professionals in the field to provide expert advice. Your point about urgency is noted, but I also draw to your attention that the complexity of these bills are such that you yourselves have not yet completed your examination of them and are not in a position to advise us, which does complicate our role in going to this legislation as well. It is for those reasons that I asked the question.

Mr Firmstone—If I have been misinterpreted, I would like to set the record straight. Most of the changes that we are addressing are in the nature of housekeeping, rather than fundamental policy type issues. We have not identified any significant policy issues which are out of step with the principles which we support.

CHAIR—I have read your submission and I know you support the principles. What I am looking at though is your particular field of expertise is on the accounting and taxation legislation side. We are inquiring into this legislation, so we would be very grateful for you to provide us with any information where you see applications of the principles that you support and which the government supports and whether that has been done smoothly because compliance issues are one of the matters that affects our inquiry.

Senator GIBSON—Mr Harrison, the accounting profession has various bodies representing it. Can you explain to the committee how many members your institute has compared with the CPAs and the National Taxation and Accountants Association and are there other bodies representing accountants in Australia?

Mr Harrison—Yes, there are a number of bodies representing accountants. Our institute has approximately 32,000 members all of whom are fully qualified chartered accountants. Over 50 per cent of those are in public practice. There is about 40 per cent in commerce and industry. Other bodies that represent the accounting profession is the Australian Society of CPAs. They have approximately 88,000 members. Under 50,000 are certified practising accountants, but I am not sure of the precise numbers. There is a National Institute of Accountants and there is a National Taxation and Accountants Association. There is a Taxation Institute. There are a number of bodies that involve accountants and some of those

such as the Taxation Institute involves lawyers as well. The numbers in the NTAA I am not aware of, but I suspect they are probably closer to 3,000 than they are to 32,000.

Senator GIBSON—So the NTAA is a relatively small body as far as the accounting profession in Australia is concerned?

Mr Harrison—Yes.

Senator GIBSON—The Leader of the Democrats, Senator Meg Lees, has stated publicly that she believes the criteria of simplicity in tax legislation has been overstated. Would you care to comment?

Mr Langford-Brown—Simplicity is one of the key notes of any successful tax system. With great respect to Senator Lees, I believe that the view she may have been putting is not adequately represented in terms of the thoughts of tax professionals. Our tax system in Australia has been bedevilled by complexity and a shocking inability to comprehend the actual drafting. Hence, we can only say that simplicity in any form of tax in any country in the world is a vital and key ingredient.

Senator GIBSON—You also mentioned in your submission and in your address to us this morning the importance of compliance costs. The previous witness, Mr Walpole, from ATAX was quoting some evidence to us about the high cost of compliance of the GST. He quoted a reference from New Zealand. A 1992 reference, which is in his submission, which is available to you, quoted a 7.3 per cent cost of compliance of the GST in New Zealand. I queried him about whether that was actually a practical and reasonable estimate, given we have had other people come before us and say that for small businesses doing their GST is very simple off their bank statements—one-eleventh of their sales and one-eleventh of their purchases excluding labour. That takes 10 or 15 minutes a quarter or every two months in New Zealand. Would you care to comment?

Mr Firmstone—I have not seen the source of the 7.3 per cent. Intuitively it is a number which does not make a lot of sense to me. Certainly at the small SME end compliance costs will be significant, but I cannot see them getting up anything towards that. At the end of the day a small business needs to accumulate sales, which they need to do for other purposes, and they need to remit one-eleventh of it. That is assuming it is kept simple and there are not different rates and broad based exemptions. Similarly, a small business needs to accumulate the invoices which it receives for the goods and services it buys, and it needs to do that anyway for purposes of its accounts payable. All it needs to do extra for GST is to add up the GST component of those invoices and to claim a credit each month. I do not see it as a big deal. I do not see it being anywhere near seven per cent of the costs of operating a business.

Senator GIBSON—Thank you for that. Could you take on board the evidence we have just had from Mr Walpole and chase up that reference and come back to us with your evidence about that? You also stressed the complexity argument; in other words, keeping the legislation simple and keeping exclusions to a minimum. The main argument that has been before us is whether or not food and/or books should be left out of the GST net. From your experience, what is your understanding of what would happen if they were being considered?

Mr Langford-Brown—The need for a simple base system is paramount. If we start to introduce added complexities such as exemption for one category or another, whether wholly or partially, the dynamics that have bedevilled the wholesale sales tax system just re-emerge. As we have said in our submission, that is not the way to address the problem. The problem should be addressed in terms of compensation. If small business in particular has to grapple with an unnecessary line of compliance by excluding various other categories of goods and/or services, it is not the aim of simplicity and it just makes the whole complex matter of our tax system not the simple one that we want.

Senator MURRAY—Mr Langford-Brown, I want to deal first with the relationship of Australian companies doing business in foreign jurisdictions. If an Australian company bribes an official in a foreign country, is that tax deductible at present?

Mr Langford-Brown—In our income tax legislation at the moment, we do not have a specific exemption which would deny deductibility of a bribe. But may I say that one needs to be extremely careful in defining what we consider to be a bribe. For example, some people would blithely and simply say that the provision of assistance, the provision of ensuring that an overseas company operates smoothly, could be seen as a bribe by the potential incoming Australian competitor. Therefore I urge us all to be careful on the definition of ‘bribe’.

Senator MURRAY—Is there anything in the ANTS package which seeks to implement the recommendations of the international convention on bribery and of the international campaign to outlaw bribery practices by countries in the OECD?

Mr Langford-Brown—My recollection is not 100 per cent, but I am aware that Treasury and the tax office are very conscious of this particular issue. It is one that a number of people, including our institute, have put submissions to government saying that bribery needs to be considered.

Senator MURRAY—Let us be more specific: does your institute oppose bribery by Australian companies of foreign officials and foreign companies? Would your institute support the implementation within legislation, within this package, outlawing bribery—however defined?

Mr Langford-Brown—I think that is the trouble—that ‘however defined’ is something that does concern me. If it is possible to come to a common definition, the institute’s view has been that, yes, we would support non-deductibility of bribes.

Senator MURRAY—Strongly?

Mr Langford-Brown—Yes, strongly.

Mr Harrison—Perhaps I could add that we have been working with Transparency International on that subject and related subjects for a couple of years now in support of that particular argument.

Senator MURRAY—You are aware that other countries have managed to implement legislation in line with Transparency International's approach, aren't you?

Mr Harrison—I am aware of that.

Senator MURRAY—Why would Australia not be able to match those countries now?

Mr Harrison—I think we have agreed that in principle we should. We need to take care in the drafting of the definitions, as I guess each country has equally found it difficult.

Senator MURRAY—Would you support this committee recommending that this legislation includes the ending of bribery?

Mr Harrison—I am not sure whether it falls within this committee to address that issue. I guess our comments on the issue in principle are clear. Whether this committee has a role to play in that, I am not sure, but I think our position is reasonably clear.

Senator MURRAY—Our terms of reference are precise: we are required to examine all issues of the black economy, of ending rorts and of ending immoral tax behaviour—I would have thought that is fairly clear.

Mr Harrison—I can only repeat the position of the institute with respect to bribery and its relationship to tax.

Senator MURRAY—Would you take as strong a view on bribery as you do on the issue of simplicity? I mean, do you feel as strongly about those issues of behavioural morality in the tax system?

Mr Harrison—I believe we take a strong view on behavioural morality, yes.

Senator MURRAY—Thank you, I expected you would. Let me move to the question of pharmacies. Pharmacies have been given zero rating for a substantial number of their products, and there are thousands and thousands of pharmacies. Is your institute developing special packages to deal with the added complexity and the potential difficulties that pharmacies may have as a result of having numerous goods made GST free by the government?

Mr Langford-Brown—The institute recognises that, as part of its duty for education both to its members and to their clients in the general community, there is a need for special interest groups to be adequately educated, and we will certainly participate in that. If your question was also referring to the accounting concepts and the accounting facilities applicable to the differentiation within pharmacies, that is something that we will certainly be talking to software providers in the future.

Senator MURRAY—So where the government has decided—and business seems to agree that it is all right to have GST-free goods within thousands and thousands of pharmacies—your answer indicates that it is perfectly possible for the accounting profession

to deal with that added complexity, with that loss of simplicity, and provide accounting and professional advice which would enable small business to cope with that adequately?

Mr Langford-Brown—We recognise the challenge in any form of new legislation but we believe it is quite possible.

Senator MURRAY—And that same principle could be extended to any other exemptions—for instance, retailers in education goods such as books or retail goods such as food—that is correct, isn't it?

Mr Langford-Brown—Our policy is minimal exemptions.

Senator MURRAY—No, that was not my question. Your industry, your profession, is capable of developing the accounting packages and the professional advice to deal with exemptions, aren't they?

Mr Langford-Brown—Yes.

Mr Harrison—We have developed systems to cope with the wholesale sales tax. But the fact that we have developed systems to cope with it does not suggest that we necessarily support the complexity of the wholesale sales tax. Our argument has been to keep exemptions to a minimum. But systems can be developed, and costs are associated with those.

Senator MURRAY—And that is true for the 700 million people in 23 OECD countries around the world that zero rates or differentially rate food, isn't it? They all have accounting packages and so on to deal with exemptions and the different practices there.

Mr Firmstone—Yes, it can be dealt with. There are two ways about it. The issue is a different one though. The issue that the institute is concerned about is to keep compliance costs to business at a minimum to try to make sure that within our policies business is not inflicted with the sort of problems which are imposed on it with the present wholesale sales tax. Just because one is capable of developing systems and processes at a cost which enables something to happen does not mean it is desirable to go that step. We take the position that it is not desirable to extend the exemptions or concessions beyond where they are, because that will simply add layer upon layer of complexity in the system and cost upon cost to business of complying.

Senator MURRAY—I understand. My last question concerns computerisation. It strikes me that modern small businesses are much more computerised than they were historically; they are into EFTPOS and those sorts of thing. A key element of dealing with the tax change is the availability of computer hardware and computer software to deal with the changes. Is it your view that small business because of their involvement in computerisation, EFTPOS and those sorts of things are much better equipped now to deal with the implementation of a GST even with various exemptions such as for pharmacy, education, health, and perhaps food and books?

Mr Traill—I believe that today—and following on from the New Zealand example—Australian small businesses should be able to implement software packages fairly easily. New Zealand has been operating with a number of software packages to deal with the GST for 12 years. I understand that those packages are easily modified to the Australian system, even though Australia is different from New Zealand. It should not be a big issue to change those software packages to comply with the Australian legislation.

Senator MURRAY—Thank you, Mr Chairman.

Senator SHERRY—Bottom line, do you claim that the compliance costs of a GST will be less in overall cost terms than the current wholesale sales tax and other indirect taxes?

Mr Firmstone—As a percentage of revenue collected, yes, substantially.

Senator SHERRY—But that was not what I asked—in total cost?

Mr Firmstone—It will be more.

Senator SHERRY—Isn't it true that the number of tax collection points under a WST is currently about 75,000—

Mr Firmstone—Yes, that is true.

Senator SHERRY—And that will rise to 1.4 million and then 1.6 million collection as stated in the ANTS document?

Mr Firmstone—That is as I understand it.

Senator SHERRY—And, logically, isn't it therefore true that there will be a substantial number of SMEs, small and medium sized businesses, that will become involved as tax collectors for the first time directly?

Mr Firmstone—Indirect tax collectors for the first time, yes.

Senator SHERRY—In terms of the clients that you work for and let us deal with small and medium sized businesses to start with: what is the estimated compliance costs, start-up costs, for a GST?

Mr Langford-Brown—If I may, I will give two scenarios, one is somebody that already has a established computer system. The additional costs simply to comply with the GST legislation would be a software package of approximately \$150.

Senator SHERRY—What about training?

Mr Langford-Brown—In addition, there will be training. But the ATO and bodies such as ourselves will certainly be training the work force and the community, and the fees for that will be very minimal, say \$50.

Senator SHERRY—Let us just go on then: what do you charge per hour for that training?

Mr Langford-Brown—If the institute and the Taxation Office, for example, are running seminars, the cost of that seminar would be between \$50 and \$100 in attendance.

Senator SHERRY—Let us assume that a lot of small businesses will go to their accountant and ask for advice one to one.

Mr Langford-Brown—Yes, they will.

Senator SHERRY—What will be the cost per hour for that sort of advice?

Mr Langford-Brown—It varies from as low as, say, \$50 through to whatever the top big firms charge.

Senator SHERRY—You would have some knowledge of that—what is the range of cost?

Mr Langford-Brown—The cost of this sort of activity, I would imagine, would range from \$50 to \$175 per hour.

Senator SHERRY—Sorry, go on with the non-computerised small businesses.

Mr Langford-Brown—The non-computerised small businesses which simply use a manual system, all they have to do is add two additional columns, one on each side of their cash book, to record invoices in and invoices out, add it all up, divide by 11 and there you have the GST cost. It is very minimal.

Senator SHERRY—What additional time and conversion into cost do you estimate for that?

Mr Langford-Brown—Are we talking about the initial implementation or the ongoing?

Senator SHERRY—Initial to start with and then perhaps we could get into the ongoing costs.

Mr Langford-Brown—In an initial situation, if you are simply installing a software package, you would have a two-hour training session to give them the basic understanding of how GST works—that is the sort of time frame. Less than a day should give the average small business a working knowledge.

Senator SHERRY—But what about the cost of the software package and the hardware—if they do not have the hardware? I have been into a corner shop as I am sure everyone in this room has been into a corner shop where there is an operating till. Many of them do not even have a tape in the cash register. What is going to cost that sort of business?

Mr Langford-Brown—There is no need for such a business to go to a computerised system unless they want it for other reasons.

Senator SHERRY—What about an operating till that actually records the transactions?

Mr Langford-Brown—Again, there is no real need to change. As I said earlier, all you have to have is these additional total columns to get the GST obligation.

Senator SHERRY—You must have some estimate of the cost of an electronic system. One of the arguments for the introduction of a GST is to modernise, to take small business into the computer age.

Mr Langford-Brown—But that is a different issue to implementing a system simply to cope with the new legislation for GST.

Senator SHERRY—That is not what I asked. One of the arguments for a GST is to take small business into the computer age. What will be the cost of taking them into the computer age?

Mr Langford-Brown—That will depend upon the wishes of the small business, but you can get a fully operational system—hardware and software—to comply with the GST requirements for \$1,500 maximum.

Senator SHERRY—Plus training?

Mr Langford-Brown—Minimal training, yes. That is usually thrown into the cost of the purchase anyhow.

Senator SHERRY—I think the ongoing costs in ANTS are \$1.9 billion overall as a gross cost.

Mr Langford-Brown—I am unaware of the detail of that. But in terms of the ongoing costs for a small and medium enterprise, once you have got your systems established, what we have been able to ascertain, both talking to people here and in New Zealand, in particular, is that it will only cost you additional hourly times per month—certainly not a huge amount of time.

Senator SHERRY—That is part of that \$1.9 billion.

Mr Langford-Brown—As I said, I am not sure how they get to that figure.

Senator SHERRY—Obviously there is an additional cost; we can all argue about what that is. What do you think a business will do? Will they pass that cost on to their customers or will they absorb it and take a reduced profit or a bigger loss? What is your expectation of their behaviour?

Mr Langford-Brown—I think that business will not be passing on additional costs because there will be benefits coming back to them from the abolition of a number of other indirect taxes—the wholesale sales tax and others.

Senator SHERRY—We are talking about small businesses here. Are you arguing that the additional compliance costs will be offset by the abolition of the compliance costs for the WST? Most are not involved in that system.

Mr Langford-Brown—I think you have got to look at the total package, of which the GST is but part. Overall I do not think there should be any need for passing on additional costs.

Senator SHERRY—Are you saying that there are not going to be any net additional costs for small businesses?

Mr Langford-Brown—I am unaware of exactly what it will be, but I am saying that it is going to be more.

Senator SHERRY—So there will be some, but they are minimal?

Mr Langford-Brown—There will be some. At any time you introduce new legislation there will be some.

Senator SHERRY—We have progressed to the point where there will be some additional costs. We can argue about the figure. There is a question mark there. How will they deal with that? Will they pass it on in the form of higher prices or take a lower profit?

Mr Langford-Brown—I have already answered; I do not believe that there will be any need for them to pass it on.

Senator SHERRY—Initially you denied that there would be an additional cost. But if they are not going to pass it on, what happens? The bottom line is hit, isn't it?

Mr Langford-Brown—It could be. You would have to look at each individual situation.

Senator SHERRY—If you are a small business operator and compliance costs have gone up, whatever the cost is, you either pass the cost on in the form of higher prices or you take a lower profit. It is one or the other, is not it?

Mr Langford-Brown—You have got the ACCC's role in this whole exercise.

Mr Harrison—It is very difficult for anyone to generalise in answer to that. The effect of competition in different situations will affect whether they pass on changes in cost structures, whether they be induced by the tax system or others. I think it is very difficult for us to give a general answer as to what any particular business will decide to do when they face changes in their cost structure. That is true whether it be by tax imposition or any other means.

Senator SHERRY—Your whole submission is generalisations. I would have thought that you could be general in respect to an answer to the question I have just asked, because it is something that small business ask about all the time. A small business operator says to you, ‘I have got an additional cost,’ whatever it may be. What are you going to say to them if they say, ‘Is it illegal for me to pass on the extra compliance costs? Do I have to worry about the ACCC dashing in and dragging me off to court for passing on the additional compliance costs?’ What are you going to advise? Is it illegal?

Mr Firmstone—No, it is not illegal.

Senator SHERRY—And you can say to them that they can pass it on if they wish?

Mr Firmstone—To the extent to which a client’s competitive position permits him to recover increased costs in pricing, yes, it is an available option.

Senator SHERRY—That’s right. Thank you.

CHAIR—I have got one final question. I think Mr Firmstone took on notice my question as to whether you would be prepared to advise the committee of any of the technical changes that your survey of the 16 bills we are considering might throw up. Since you are taking that question on notice as to whether you will inform us or not, can you advise me when you think you might be in a position to answer that question for us?

Mr Harrison—We believe that it will take us between one to two weeks to complete the analysis of legislation that we are working on at the present.

Senator CONROY—Will you give it to us?

Mr Harrison—We have given an answer to that question.

CHAIR—You will give us an answer to the question after you have completed your work, but my colleague Senator Conroy put the thought into my mind that the question is: will you give us the detail of your examination?

Mr Harrison—We can give you the results of our examination of the legislation we have conducted within those two weeks—completed within two weeks, I should say.

Senator CHAPMAN—Mr Harrison, I think you said earlier that your organisation had something in the order of 32,000 members.

Mr Harris—Correct.

Senator CHAPMAN—And the CPA has 88,000?

Mr Harrison—Correct.

Senator CHAPMAN—Would there be any significant overlap in that membership?

Mr Harrison—Yes. I cannot tell you precisely off the top of my head the number of joint members, but there are a significant number of joint members, yes.

Senator CHAPMAN—Overall, would 100,000 individual accountants or firms be a reasonable estimate of the net combined membership, if you like?

Mr Harrison—One has to be careful when you start to talk about numbers. Within the society's numbers, of those 88,000 a number are not qualified CPAs but students studying to become CPAs. I suspect that that number is between 20,000 and 30,000. But when we were looking at the aggregate membership last year, we were talking about a total membership of between 115,000 and 120,000. I think one has to be a little careful about how you describe those. They are fully qualified professional accountants and there are a significant number of members of the society who are not CPAs but students.

Senator CHAPMAN—You mentioned that you thought the National Taxation and Accountants Association had about 3,000 members?

Mr Harrison—Quite frankly, I do not know the figure.

Senator CHAPMAN—I think in their submission they claim 4½ thousand. Does the NTAA have any particular expertise or any particular vested interest, or can you give any other explanation as to why it might have a different view on this issue than the ICA?

Mr Harrison—Quite frankly, I do not study the activities of the NTAA with sufficient detail to be able to give any comment on why they might take any particular action.

Senator HARRADINE—In your introduction, Mr Harrison, you mentioned that your institute was apolitical. Needless to say, it is not amoral. You have been pursuing, as you say, the campaign for a wide ranging tax reform. What are the basic principles of that?

Mr Harrison—The criteria by which we judge the appropriateness of tax reform, which I believe are listed in our submission, Senator.

Senator HARRADINE—I have seen that. It says here that the ICAA supports reducing marginal personal income tax rates across the board, in particular as they impact on low and middle income earners. What priority do you give to the question of taxation of income when it is to sustain children and dependants, for example? There is nothing in here about that.

Mr Harrison—I am not sure how one attaches a particular priority to an issue like that. I am not quite sure exactly what you are really addressing in terms of that element of income taxation.

Senator HARRADINE—I am just referring to the comment that you made, that you are pursuing a wide ranging tax reform. I wanted to know what priority you gave to the question of taxing incomes where there are numbers of dependants relying on that particular income.

Mr Harrison—I think I am missing the point, because I am not sure how to attach a priority to that. We are talking about changes to the tax system in its breadth, which includes changes to the income tax act which we believe are important. But I am not sure I can go into the detail that you are seeking, because I do not understand exactly what it is you are seeking.

Senator HARRADINE—A GST is going to fall heaviest on those who can least afford it. Many of those with dependents can least afford it because they will be paying out for bus fares, for example, which will be subject to the GST. They will be paying more GST than otherwise. Leaving aside the GST and getting to the principles of taxation equity, in a society such as Australia's, what priority does the institute give to recognising the dependencies upon income?

Mr Harrison—We have said in our submission that we believe there needs to be compensation for the effect of a GST. We believe that compensation needs to be carefully measured. It does not necessarily come entirely through the tax system. It can be provided by other means through the social welfare system, but we believe there needs to be a careful assessment of the impact, particularly on the low income and disadvantaged families of a GST, and compensation provided for that.

Senator HARRADINE—I was also talking about the question of equity between various families with various numbers of dependants against other families of similar incomes. Surely you would concede that there would need to be a recognition of the fact of dependants in family A compared with family B.

Mr Harrison—Ian, you might be able to provide an answer.

Mr Langford-Brown—Fundamental to your question is a matter of policy decision for the government of the day. We are not entering into the policy debate, but we are strong in our view that there should be a reduction in income tax rates across the board.

Senator CONROY—Including the top rate?

Mr Langford-Brown—Across the board.

Senator HARRADINE—Is this not a factor of bracket creep? And should that not have been done already?

Mr Langford-Brown—Again, Senator, that is a matter of policy. This new overall package which is being proposed addresses what may have been the errors of the past.

Senator HARRADINE—I go to the other point that you made in your introduction. Mr Harrison you mentioned the following:

The fact is that whilst we fiddle about, Australian competitiveness burns.

I go to the question of the GST's effect on financial institutions when there is an international competitive market as is being pursued by the WTO. For example, in the Australian insurance industry—

Mr Langford-Brown—Senator, again, I believe that is a policy issue that we are not competent to judge.

Senator HARRADINE—What about the harsher treatment of entities? What effect is that going to have on Australia's competitiveness overseas in the financial area?

Mr Langford-Brown—Senator, our aim in terms of the international arena is to make Australia more competitive. We believe one part of that process is the introduction of a GST and the abolition of the associated WST and other indirect taxes, because that starts to put us into a more competitive position vis-a-vis other competitive nations.

Senator CONROY—You have never heard of an exchange rate?

Mr Langford-Brown—I am not an economist, Senator.

Senator CONROY—That is obvious.

Senator HARRADINE—Finally, I turn to the question of avoidance. Have you had a good look at the anti-avoidance provisions in 165? Do you think they are appropriate? It does give considerable power to the taxation commissioner?

Mr Firmstone—Yes, Senator, we have identified that as one of the areas where we think there is some devil in the detail. We have not finalised our position in relation to it. Suffice to say at this stage that we think it is too broadly expressed. The institute is opposed to tax avoidance. The institute supports realistic measures to combat tax avoidance, but it must be done on the basis that business has a certain environment in which to operate and that the commissioner cannot come along and use powers which are very wide to undermine certainty of the business environment. So, yes, we have some concerns with the breadth of that provision, and we are currently formulating our views in response and suggestions as to how that provision could be improved to meet our concerns.

Senator HARRADINE—One can sympathise with the taxation commissioner when faced with anti-avoidance. He has his job to do, but it seemed to me to give the commissioner considerable powers to deem an action taken not to have been taken and an action that has been taken at one particular time to have been taken on another day, for example. It seems to me that there is a need for more felicitous language.

Mr Firmstone—That provision is not our major concern. That provision has its counterpart in the sales tax assessment act.

Senator HARRADINE—Not quite. This goes a little further.

Mr Firmstone—Our concern is more fundamental. It simply is in the definition of tax benefit. It really goes to what is a tax benefit and what gives the commissioner the licence to

activate the provision. Our concern is that the benefit is so broadly defined that it can include ordinary business arrangements. That is our concern. But, as I say, we are still in the process of articulating the detail of our bill and our suggested response.

CHAIR—We will stop at this point because we are almost out of tape and because we are overdue for morning tea. We will have a very short break and resume as soon as we possibly can.

Proceedings suspended from 11.02 a.m. to 11.15 a.m.

BAKER, Mr Paul Jerome, Group Taxation Manager, National Roads and Motorists Association

PEARCE, Mr Douglas Roy Anthony, General Manager, Motoring and Chief Underwriting Officer, National Roads and Motorists Association

VENARDOS, Mr George, Chief Financial Officer, National Roads and Motorists Association

CHAIR—I welcome witnesses from the NRMA. The normal procedure is for you to make a short statement summarising your written submission, which is before us and which has been read by the committee, and then the committee will ask you questions. Mr George Venardos, I have you down as the chief financial officer and the first on my list. Does that mean you are the designated hitter on behalf of the NRMA?

Mr Venardos—No, one of a team.

CHAIR—Well, whoever is going to lead, would you like to make your opening statement?

Mr Venardos—I have a prepared statement. Doug will also cover some areas within his expertise in a short statement. I would also like Paul to lead off with his prepared statement. That should take five or six minutes, no more, and then we are happy to take questions.

CHAIR—Please proceed.

Mr Venardos—Thank you, Mr Chairman. I note this committee does not have a representative from New South Wales. I am not sure what your knowledge is of the NRMA, so I would like to start by explaining that NRMA is the largest motoring organisation and the largest general insurer in the country. While the majority of our business is in New South Wales, we also have substantial operations in Victoria and Queensland, and we recently acquired the SGIO of Western Australia which gives us a presence in both Western Australia and South Australia. We have a 25 per cent interest in the RACT in Tasmania. So what I say today has a national application.

Senator SHERRY—There are three Tasmanians here.

Senator HARRADINE—And we are all listening.

CHAIR—I am a Western Australian, since we are holding up our state flags. So is Senator Murray.

Mr Venardos—That is good. While there are local factors, such as stamp duty and fire service levies, which will have an impact, the overall effect on insurance products is the same throughout Australia. One important qualification to that statement is the uncertainty about the tax treatment of public sector statutory insurance schemes for motor vehicle third party and workers compensation. I am not sure if the senators are aware, but the third party

motor vehicle insurance scheme in New South Wales is privatised. It is not like the other states. We know that private schemes will be taxed, and we would be very concerned if schemes were not treated the same way throughout the country, whether they are private or public. We also speak on behalf of the motoring organisations in the home states and we are concerned about the impact on roadside services and assistance.

We are not here to debate the merits of the tax legislation as a whole. The reform of the tax system is ultimately a matter for government and the parliament. However, we do have a responsibility to draw attention to the adverse consequences in the transitional provisions for our two million members, our three million or so customers and indeed the 6½ million members of the motoring organisations around Australia.

It is not fair that insurance policies commencing prior to the commencement of the new tax system should be subject to the new tax. It is not fair that payments on claims which arise before the new tax system takes effect should be denied the benefits of input credits. It is not fair to increase the cost of insurance to the community before introducing the compensation package. As you would have seen in our written submission, the NRMA will incur tax of \$125 million on policies issued over the course of the 1999-2000 fiscal year when the new tax system commences on 1 July 2000. In addition, we face additional costs of at least \$57 million—and I mean at least, that is a conservative number—in our claims provisions resulting from the denial of input credits for GST paid on claims which arise before 1 July 2000. As the legislation now stands, we will not be compensated for these costs, and the only prudent course open to the NRMA is to make provision for these additional costs in our prices over the year leading up to the introduction of the GST.

We will not shift the burden onto subsequent generations of policyholders' or members' funds. We reject such alternatives both on equity and prudential grounds but, if necessary, we will, under protest, adjust our prices in the coming year. Our members and customers will have understandable difficulty in accepting the need to pay additional costs for a tax system that is yet to take effect, with no compensation package in place.

The NRMA endorsed the submissions to this committee from the Insurance Council of Australia and the Australian Automobile Association. We do not come here to resile from that endorsement, but we wish to make it clear that we cannot accept legislation which contains such adverse consequences for our members and customers. As indicated in our submission, the impact will be more severe in compulsory insurances: motor vehicle, third party, and workers compensation. It is not clear whether that is the government's intention, but that is certainly the effect of this legislation.

There is also no doubt, in our view, that this tax package will have an impact on our international competitiveness. People will be buying insurance over the Internet from global competitors. If you tax the premiums, that is going to hinder our competitiveness. Before we take questions, I would like to pass over to Doug, who is going to elaborate on these issues in his capacity as our General Manager, Motoring and Chief Underwriting Officer and then Paul will make some comments on what we think are some suggested solutions.

Mr Pearce—Mr Chairman, I believe it is important that this committee understands the impact of these transitional provisions on compulsory insurances. My expertise in the

compulsory area is primarily with compulsory third party in New South Wales. However, I know from our colleagues in the SGIO that they face similar issues in the Western Australian workers compensation market. Senators will no doubt be aware of the considerable variation between states on the costs and benefits associated with CTP and workers compensation schemes. Assuming that the GST will be applied equally to private and public sector schemes, the new tax will have a similar impact throughout Australia. The nature of these services is such that the transitional provisions are hardly transitional at all.

Our CTP claims department here in Sydney is very proud of the fact that we take, on average, about three years to finalise claims. In the scheme of things we are, I think, actually the best in this state at that. This is a good deal better than most of our competitors. Yet we do have claims on our books that are well over a decade old, and some even go up to 20 years old. This is particularly true for claims involving infants and the reason for this is that it takes many years for the injuries sustained in motor vehicle accidents for these young children, particularly, to stabilise. As the legislation now stands, payment on those claims in 10 to 15 years time will be subject to transitional provisions and no input credit will be available to offset the cost to NRMA on any GST on those payments. Mr Venardos has already spoken about the fact that prices will need to start rising this year to cover the impact of the tax on our new premium next year. This includes CTP and workers compensation and is hardly likely to be welcomed by the motorists and small business people in New South Wales and across Australia. The impact will be exacerbated by the need to adjust prices to cover GST on outstanding claims to the extent that we can. Mr Venardos has quoted a figure of \$57 million for the impact on the NRMA CTP portfolio alone. I regard this as conservative.

Our submission alludes to the possibility that the courts will anticipate some increase in inflation throwing from the change to the GST and increase claim settlements. In my view, this is a certainty. These additional costs will flow into the premiums. There is also the impact of the lower income tax rate. An award for the loss of earnings of say, \$100,000 today might become \$105,000 or \$110,000 or more depending upon the injured person's marginal tax rate. Again, this will force up premiums. I will now ask Paul Baker to outline our proposals to overcome these problems before we take questions.

Mr Baker—Mr Chairman, it is important that the new tax system properly accommodates the timing and payment features of insurance services not only from the perspective of fairness and equity but also from a community perspective of ensuring that there is a smooth transition into such a regime. To that extent we are seeking two specific amendments to the transitional bill: firstly, to ensure that GST only applies to policies due on or after 1 July 2000; and, secondly, to allow an appropriate input credit for all claims costs paid after 30 June 2000, regardless of the claim event date. This approach is similar to that adopted by New Zealand when it introduced its regime. It was also an approach that was put forward as part of the Cole Committee report back in 1993.

The committee may also want to make recommendations about the abolition of state taxes, such as stamp duty on general insurance, and also about the application of fire service levies on general insurance. These are legitimate concerns. We would be more than happy to assist the committee in formulating its recommendations, although state taxes are not a main focus of our submission.

Lastly, we have put forward both under the auspice of the NRMA and also via the Insurance Council of Australia various necessary amendments to the insurance provisions contained in the GST legislation. We are more than happy to provide you with a copy of those suggested amendments.

CHAIR—We would be grateful if you would provide us with a copy. Mr Venardos, you are a member of the Insurance Council?

Mr Venardos—Yes.

CHAIR—The Insurance Council about 10 days ago put to us a view that transitional costs for this tax for the insurance industry in Australia was \$2.5 billion and that no compensation was being provided for that. They had made submissions to the federal government but they had not yet received an answer. If this legislation was passed and those costs imposed, they would have to pass on those costs to their policyholders. They went further to say that, since this was an unintended consequence, it should be simple for the government to write off the \$2.5 billion so they did not have to do that. That is a quick summary by me of the main points of their submission. I take responsibility for the accuracy of that summary but I think you will find that is true. Is that your understanding?

Mr Venardos—Yes, it is. We participated in some of the work that was done to produce that particular outcome, and that was enunciated by our ICA colleagues. Paul could give you some more detail on that, if you are interested. Yes, we are a member and, as I said, we are not resiling from anything that was said by the ICA.

CHAIR—Some other questions might want some more detail in a minute, but let me pursue my question further. The changes that you are seeking to these bills, have you put them to the Treasurer?

Mr Baker—We have done that via the Insurance Council of Australia.

CHAIR—So you are in the same boat, you are waiting for a reply?

Mr Baker—That is correct.

CHAIR—Do you know when the reply might be forthcoming?

Mr Baker—At this stage I do not know.

CHAIR—In question time last week—you may or may not be aware of this—I understand the Treasurer answered a question along these lines and dismissed the concerns as those of rent seekers; that is, people who are free riders wanting a handout. Is that a fair depiction of your position?

Mr Venardos—No, in a word. We are very concerned about this. We would not be here today trying to describe these problems and enunciate them to you if we did not feel there was a problem. We believe we participate in a very important industry which is part of the social fabric of our community. If the price of insurance goes up, it will have an impact on

Treasury and it will have to fund shortfalls—whether it goes through our price increases or it is done through social welfare, there will be an impact. This is a very complex area that needs to be considered very carefully, and we are here to point that out. We believe there has been an omission or an oversight that needs to be dealt with.

CHAIR—If it is not sorted out and the legislation passes unamended, could you just tell me how you intend to absorb or cover those costs? Do you absorb them yourselves, which means I suspect that your shareholders take a lower dividend; or do you pass them on, which I suspect means that your policyholders have to pay higher charges?

Mr Venardos—We are a mutual; we do not pay dividends. We also have responsibilities to our members and our policyholders to run the business in a prudential way and ensure that we are able to continue to write business. We would be forced to pass on any price impact. We do not have the resources to absorb this nor are we interested, as I said in my opening statement, in reducing our equity to accommodate it.

Mr Pearce—If I could add on that: we would pass them on where we can so the impact would be on the unearned premium reserve; but where there is an impact on the outstanding claims reserves and where those reserves particularly apply to the statutory classes, unless there is amending legislation in each of the states' schemes that money could not be recouped. So it would come straight out of members' funds.

CHAIR—So you either run down your reserves, which means you have to slug your members somewhere down the track to rebuild those reserves, or you pass them on in higher prices to your policyholders. The compensation for the tax package does not include these extra charges, does it?

Mr Venardos—Not to our knowledge, but we have not been privy to the modelling that has been done.

CHAIR—So these would be costs that would be new, and costs that your policyholders or members would have to bear?

Mr Venardos—That is right.

CHAIR—Uncompensated?

Mr Venardos—That is our view, yes.

Senator GIBSON—Mr Venardos, the chairman has quizzed you about the fact that your industry is already in consultation with Treasury about these detailed and complex matters.

Mr Venardos—That is correct.

Senator GIBSON—I stress that we understand they are complex and detailed. Given that, making claims here today that your association is going to lose \$57 million as a minimum is really speculation on the assumption that nothing is going to come out of the consultations your industry is currently having with Treasury, isn't it?

Mr Venardos—I really do not know what the outcome of those consultations will be, but we are here today because we are concerned. We want these things on the record and taken account of in the process.

Senator GIBSON—Sure, but the fact that your industry is in consultation with Treasury now and the matter has not been determined means that the matter is being examined. You have also admitted—and we understand because we are not experts in it—that this area of general insurance is complex and needs detailed examination in order to get it right. I just make the point again that making claims today, with publicity, of large losses is really speculation on your association's part.

Mr Pearce—The draft legislation that we have in front of us is what we base our comments on, and that is what is released to the public. I think the speculation is the other way around—to say that we will not lose this money on the basis of amendments to that legislation is just speculation at this point. We are very hopeful that the process will yield a positive result, but at this stage all we have to work on is the legislation as it is so drafted.

Senator GIBSON—Yes, but Treasury has been having consultations with you, those consultations are continuing and there has not been any determination. I just say again—

Mr Venardos—And that is good. We are here to feed into the process and we would hope that these comments help the senators form a view going forward. We would also hope that it helps Treasury.

Senator GIBSON—Is your association in favour of reform to the taxation system?

Mr Venardos—We have no problem with whatever the government decides is the right way to go forward for Australia; we will do our bit. But we want it to be in a way that is balanced and fair and giving appropriate compensation to our members and customers. That is what we are here for; that is our primary concern. We are not policy makers.

Senator SHERRY—Just passing back to the remarks by Mr Costello delivered in his true gusto manner. He said last week in response to a question on the Insurance Council in the parliament:

. . . there is no error whatsoever in the costings of the government's package, nor has one been identified. . . . the Insurance Council of Australia wanted more beneficial treatment in relation to unearned premium reserve and in relation to payouts in respect of events before 1 July 2000.

It goes on and makes a comment about the NRMA:

If the NRMA seeks to take price rises on the basis of a tax system that does not apply then it, as a corporation—if it were to say that is what it is doing—would be engaged in misleading and deceptive conduct in breach of the Trade Practices Act.

I put it to you that you have your answer: firstly, the Treasurer is not going to change the package; and, secondly, he goes further and says you are engaged in misleading and deceptive conduct. Do you have a response to that?

Mr Venardos—That is an emotive response. We deal with fact. If he is happy to put the modelling on the table, we will give him some expert commentary. But at this stage we have done our homework. We have been in this business 70-odd years; we have done our homework; and we stand by our figures.

Senator SHERRY—I take it your concerns are shared by other insurance organisations who are part of the Insurance Council of Australia?

Mr Venardos—I think their submission makes that very plain, yes.

Senator SHERRY—Just going to the impact of these price increases, I understand you offer disability, household, building and contents insurance. What will be the impact on that area of insurance in terms of premium?

Mr Venardos—I am reluctant to put actual numbers on the table because they are commercially sensitive. I am not willing to go down a smorgasbord list and put numbers on the table as to what the impacts will be. It is inappropriate for me to do that.

Senator SHERRY—But prices will go up for the consumer?

Mr Venardos—Yes, they will.

Senator SHERRY—As I understand, stamp duties are levied on some forms of insurance—

Mr Venardos—Yes, they are—all forms.

Senator SHERRY—All forms in this state?

Mr Baker—In New South Wales stamp duty is levied on all general insurance, with the one exception being compulsory third-party insurance.

Senator SHERRY—And the stamp duty is a form of tax, isn't it?

Mr Baker—Yes.

Senator SHERRY—What is your understanding of the GST and the way it applies on products where stamp duty is payable?

Mr Baker—As the legislation is currently drafted, there will be GST imposed on the stamp duty element. In New South Wales, as the New South Wales stamp act is currently drafted, there is a possibility that stamp duty may be imposed on GST as well.

Senator SHERRY—So it is a tax on a tax effectively?

Mr Baker—Correct.

Senator SHERRY—What proportion of premiums is state stamp duties?

Mr Baker—In terms of our business just about all our premiums will be subject to stamp duty except for CTP premiums.

Mr Venardos—What is the percentage?

Mr Baker—Stamp duty rates: in terms of motor vehicle insurance, it is five per cent, and basically the majority of other general insurance being subject to stamp duties is at the rate of 11.5 per cent; in the ACT, it is 10 per cent; in Victoria, it is 10 per cent; in Queensland it varies between 5.5 per cent and 8 per cent; and I am uncertain about the other jurisdictions. But it is effectively a 10 per cent rate on average around Australia.

Senator SHERRY—Is stamp duty paid on workers compensation premiums?

Mr Baker—Not in New South Wales.

Senator SHERRY—In any other jurisdictions?

Mr Baker—I am uncertain. Whilst I know that in New South Wales compulsory third-party is not subject to stamp duty, it can be subject to stamp duty in other jurisdictions. It is very much a state based matter.

Senator SHERRY—Workers compensation is compulsory—we are dealing with products that, in many cases, are compulsory. They are not optional.

Mr Venardos—It is a resounding yes.

Mr Baker—I am not a workers compensation expert but I do know that in some jurisdictions there is an element of self-insurance that is allowed under the workers compensation legislation. But, by and large, it is a requirement that there is provision for workers compensation.

Senator SHERRY—But premiums would have to go up on that product as well.

Mr Baker—Premiums will have to increase. The impact of the premiums will, however, depend upon the registered status for GST purposes of the people paying those premiums. To the extent that, say, the entity is a registered identity and carries on a taxable activity they will be able to claim an input credit refund for those premiums. To the extent that they are a financial service institution—and therefore input taxed—that will become a cost of business to them.

Senator SHERRY—Mr Venardos, I think it was you who said that you were reluctant to give—because of commercial-in-confidence reasons—what you believe the price increases will be on various products. The government's ANTS package gives an overall price effect figure for insurance of an increase of less than 1 per cent—0.8 per cent. I know you cannot give specific figures for specific products, but do you believe the price effect that you will have to pass on to consumers will be greater than 0.8 per cent for any of your products?

Mr Venardos—Without having seen their assumptions it is difficult for me to say that they are wrong. I would need to review it in detail, and we need to put our experts onto it, but I can tell you this: from the homework we have done that number is low.

Senator SHERRY—You said you have not seen their figures. Why have you not seen Treasury's figures?

Mr Venardos—We do not know the assumptions that they have put into their modelling. We would need to see their detailed modelling to understand exactly how that number was determined.

Senator SHERRY—This is a fairly consistent problem across the ANTS package—we ask for detail and look for the modelling and the way in which the research is done and cannot find it in many areas. Have you requested through the Insurance Council of Australia this information and the way in which it has been calculated?

Mr Baker—I understand that the Insurance Council did have discussions with Treasury, and I understand that the 0.8 per cent is a number which encompasses life, health and general insurance. We have received information that there was not separate modelling for general insurance, but we are uncertain about that.

Senator SHERRY—So you cannot get the figures and the way in which they have been calculated—that is the bottom line.

Mr Venardos—Yes, that is right. We neither have seen nor know how it has been calculated.

Senator SHERRY—Thank you.

Senator MURRAY—Mr Venardos, did you hear earlier the chairman indicate—and I think correctly—that billions of dollars were at stake as a result of, perhaps unintended, perhaps intended, consequences of the ANTS package for the insurance and contract industry generally?

Mr Venardos—Yes.

Senator MURRAY—Are you aware that the government has the numbers in the House of Representatives and that these bills have passed the House of Representatives with very few changes?

Mr Venardos—I am acutely aware of that.

Senator MURRAY—Do you believe that the Senate is obstructionist or hostile in refusing to pass the Treasurer's bills without review and without amendment?

Mr Venardos—I would prefer not to comment on that; that is a matter of politics.

Senator MURRAY—I find your response—if I may say so—offensive, and the reason I find it offensive is as follows. Would you agree that the Treasurer has consistently said he wants to pass the tax package without amendment and that they have a mandate for it and that it should be passed in toto? Are you aware that that is what he said on the record?

Mr Venardos—I am aware, yes; I have seen that in the newspapers.

Senator MURRAY—You are sitting here asking this committee to take cognisance of your legitimate needs as an industry and, I assume, to negotiate amendments to that legislative package—unless the Treasury and the Treasurer agreed to change their minds, which they have not agreed so far—and you are telling me you cannot enter the debate as to whether the Senate is recalcitrant, as to whether it is hostile, as to whether it is obstructionist? Do you agree that we should just get out of the way and give the government their mandate? Is that what you are telling us?

Mr Venardos—No, what I am here to do today is to inform the good senators in the house of review of some facts that I am not sure they understand or have been properly briefed on—that is what I am trying to do.

Senator MURRAY—But are you not saying to us that if the Treasury does not agree to amend the legislation—

Mr Venardos—That is the will of the people.

Senator MURRAY—you want the Senate to amend it?

Mr Venardos—It is up to the Senate whether they wish to take action based on what we say today; it is not up to me.

Senator MURRAY—But you would wish us to put the amendments, surely?

Mr Venardos—I would prefer that you put the amendments, yes. But it is your prerogative whether you put them.

Senator MURRAY—I ask you, Mr Venardos: if people like you do not defend the role of the Senate and say, ‘This is too political from me,’ then who is going to defend the Senate?

Mr Venardos—I did not think we were here today to discuss whether or not we should defend the Senate, but if you are asking me—personally, as a citizen—if I am a happy that it is a house of review, then, yes, I am.

Senator MURRAY—It is an important point, and the chairman, quite rightly, has raised it again and again with witnesses. Essentially the question to witnesses has been as follows—if I can paraphrase you, Mr Chairman: if the Treasury and the government refuse your representations, will you cop it sweet or will you come back to the Senate and say, ‘They won’t listen to us. You please listen to us because the government don’t have the numbers in the Senate’? That is the simple proposition we put to you. If the government says no, will

you cop it sweet or do you want the Senate then to amend the legislation to take care of your legitimate concerns?

CHAIR—Certain parties in the Senate.

Senator MURRAY—Certain parties in the Senate, yes—non-government parties and Independents.

Mr Venardos—We are here to participate in the process, Senator. And, as I understand it, this is a formal process that takes place with all bills. It is our opportunity to put expert commentary in front of you to help you to make your decision, and we will live with whatever the ultimate outcome is. This is the opportunity as we see it.

Senator MURRAY—Except that the Prime Minister of the day and the Treasurer have both specifically said that they have a mandate to pass these bills in their entirety, regardless of the unintended on intended consequences for your industry.

Mr Venardos—That is fine, but there still is a process of review, and that is why we are here.

Senator MURRAY—My last question refers to the law of contract. As I understand the law of contract, unless there is provision within the contract for the review of the price of that contract, you will be unable to retrospectively ask those who have insured with you to pay the additional costs of the GST.

Mr Venardos—You are correct. There is a technical issue in that regard, yes.

Senator MURRAY—I think it is greater than technical; I think it is established by law and precedent. So, unless the legislation overrides all contracts on your behalf, is it not true that as a mutual organisation you will be unable to recover the costs of a GST increase on existing contracts in which you do not have a provision to retrospectively apply a tax increase or a cost increase?

Mr Venardos—I will ask my colleague to take this, but I will say up-front that it will vary based on the type of business. Each class of business is different. If it is an annually renewable policy, at the annual renewal date a different contract can be put in place, so it is not an issue for annual renewable business. Doug is an expert in the long tail classes, and I am sure he can help you with that one.

Mr Pearce—The position that you have put is basically my understanding of it. The contracts of general insurance are governed by the Insurance Contracts Act, which is federal legislation and, once we have entered into the contract at a price, that price sits for the year.

Senator MURRAY—It is fixed, is it not?

Mr Pearce—It is fixed for the year. It is a little bit more complicated in the compulsory classes in that the pricing of those products typically either has some form of review or is determined by statute. There are usually principles underpinning how the pricing can operate

but, by and large, the pricing is forward looking so that there is no opportunity to retrospectively collect any premium or claim shortfall. So the position that you put is very much in line with my understanding of how contracts work across the board in the Australian general insurance business.

Senator MURRAY—Did I understand you to say that the price tag for that is around \$89 million? Is that what you said?

Mr Pearce—For the unearned premium issue that we have, no, it is \$125 million.

Senator MURRAY—So there is a \$125 million cost impost you must carry regardless.

Mr Pearce—Yes.

Senator MURRAY—So you are trapped between a fixed contract and an ACC which may say that you cannot pass it on. Correct?

Mr Pearce—That is right, yes.

Senator MURRAY—That is what I wanted to establish, thank you.

Senator HARRADINE—I have just one question. It seems from the explanatory memorandum at division 78 on insurance, part 6.113, that payouts of income under disability income insurance are taxed at 10 per cent—for example, to a small business. Isn't that like another 10 per cent income tax levied on gross income? What impact would that have on persons considering taking out disability insurance?

Mr Baker—I understand the impact of it. In very simple terms, where the disability insurance is taken out by a non-registered entity, for GST purposes, there will be a different pricing of premium compared to a registered entity. Essentially, the registered entity will be required to pay a higher premium for the disability insurance than an unregistered entity. That basically stems from the fact that the loss does not have a GST component in it. It is an issue that does arise with other types of insurance as well, in terms of how you actually deal with that issue. It is difficult to explain and normally I use a white board. Perhaps I might be able to give you an explanation later in writing that outlines why that arises and in what other areas of insurance that same issue can arise, with particular regard to some of the phase in provisions of motor vehicle insurance in terms of how general insurance applies to it.

Senator HARRADINE—I would be grateful for that. You are quite clearly over what is in 6.113, but it would be helpful to get that expansion.

Senator SHERRY—I have a clarification on that question. Did that go to payouts or premiums?

Mr Baker—Under the legislation, what they say is that, when an insurance payment is made, that constitutes a giving up of a right. Currently, the way the legislation is drafted is

giving up a right constitutes a taxable supply. Therefore, the insured has to account for GST on that taxable supply.

If you have a disability insurance and you have a payment in relation to, say, lost profits, it means that you receive \$100,000 from the insurance company but, because you are a registered entity, you have given up the right. That means it is a taxable supply, so the registered entity has to account for GST on that receipt. That means the insurance company, instead of paying \$100,000 to the person, has to pay \$110,000 to him compensating the registered entity for his GST liability. Hopefully, the insurance companies will have dealt with that in their contractual relationships with the insured as to who pays that liability.

Senator CONROY—In your submission, you say that the Prime Minister was interviewed by Alan Jones. The question you have there is:

Will a GST decrease or increase the price of green slips and federal and interstate rego?

Mr Howard replies:

Well, anything which is in the nature of a regulatory charge like motor registration is free of the GST, and the same thing applies to licences.

Is the legislation consistent with that commitment?

Mr Venardos—I do not believe so. I would defer to Paul.

Mr Baker—No, it is not. The only way to achieve something like compulsory third party with no price increase is that you would basically have to have it GST free with appropriate notional input credits. That would ensure there is no price increase.

Senator CONROY—So that commitment given on 14 August is not met by the legislation?

Mr Baker—If that comment was meant to say that there would be no increase in CTP premiums, then, no, it has not.

Mr Pearce—The comment might well have stemmed from the fact that there is a fair amount of disparity across Australia as to how these premiums are collected. In New South Wales they are collected separately as a green slip. I know that, in the ACT, because we run the scheme down there, it is collected as an all in one price. In the ACT motorists generally do not understand the difference between their registration costs and the cost of green slips. That comment to me seems to be a little bit along those lines where it is not quite sure as to whether it is dealing with an all-up cost or a split cost.

Senator HARRADINE—In relation to stamp duty, what is your understanding as to whether or not stamp duties with regard to CTP or any other insurance policy are going to be abolished by the states and, if so, which states?

Mr Baker—At this stage, we understand that the states put up a list of taxes to be abolished. Stamp duty in general insurance was not included in that list. At this stage we

understand that stamp duty on general insurance will remain. It is a matter that the Insurance Council of Australia raised in their submission. If you look at a typical household insurance policy, and taking the ACT as an example, they have a fire service levy of 22 per cent, a stamp duty of 10 per cent and there will be a GST of 10 per cent as well. So you will have basically 35 per cent to 40 per cent of the premium disclosed as being distributed either to state or federal authorities.

CHAIR—I think we have come to the end of our questions. Thank you very much Mr Venardos and to your colleagues Mr Pearce and Mr Baker for providing assistance to our inquiry. Thank you.

Mr Venardos—Thank you.

[11.59 a.m.]

REGAN, Mr Raymond Mark, President, National Taxation and Accountants Association

CHAIR—Welcome, Mr Regan. I am sure you have been briefed, but the format is simply that we invite you to address us in summary on your written submission, which we have before us, and then be available to answer questions. The ball, as they say, is now entirely in your court.

Mr Regan—Thank you, Mr Chairman. I have just handed over an additional document today to be given out to you.

CHAIR—Is it the wish of the committee that that be released as part of the submission? There being no objection, it is so ordered.

Mr Regan—Senators, if I can start from the beginning. In 1996 as then Leader of the Opposition John Howard showed his deep concern about the compliance cost on small businesses. He acknowledged that the red-tape burden on business was too much and that a responsible Liberal-National Party would endeavour to cut the costs of red tape. By means of background, John Howard had acknowledged a report undertaken by *Yellow Pages*. *Yellow Pages* had identified to the opposition that the cost on small business was \$7,000 a year in lodging taxation returns meeting state and federal requirements and approximately 240 hours a year. So \$7,000 and 240 hours a year in time costs.

On 18 February 1996 in the election campaign launch speech at the Ryde civic centre, the Hon. John Howard made the following statement:

I am also going to do something practical to reduce the amount of red tape that strangles the operation of small business. I am going to establish a Small Business Deregulation Taskforce and it will report to me within six months of the change of government and its brief will be to reduce the amount of regulation and red tape enveloping small business by 50%, during our first three years of government.

Again, on the same date, and I refer you to the Coalition Policy Launch Statement, the then Leader of the Opposition said:

We will slash red tape, paperwork and regulation through a Small Business Deregulation Taskforce to report on how to achieve a 50 per cent cut.

As all businesses would know—and I state that the National Taxation and Accountants Association has a membership of some 4,500 accounting firms individually representing an estimated 20,000 practitioners and accountants in practice, apart from my own role of addressing some 50,000 businesses in eyeball to eyeball seminars each year—the government did not actually proceed at all with the Charlie Bell deregulation task force recommendations. Those three main recommendations, if I can revisit them, were to align the FBT year with the income tax year, to simplify car benefit calculations and to remove entertainment and car parking.

Rather than the government acknowledging the very valuable role that the simplification of the Income Tax Assessment Act, which started in the mid-1990s, brought about—that is, the tax law improvement rewrite—and rather than simply rewriting the existing wholesale sales tax system going back to the beginning, what I am now going to demonstrate is the tremendous detrimental impact to small businesses particularly. As a person who deals and lectures small businesses on a day-to-day basis and having just come from 600 of them last night after speaking to them about the new FBT tax reforms, they will not have the systems to cope with these changes.

I refer you to my submission today. The first point in the executive summary is that the problem for small business is not so much the tax man; the problem for small business is cash. Cash is king. For the first time in Australia small businesses are going to have to dig into their right hip pocket and pay the GST up front whether they are leasing a car, whether they are doing refurbishments of business or whether they are doing improvements. Having addressed the National Australia Bank and the major banks on this issue, the banks are not necessarily going to give additional funding. Small businesses will have to give additional security. They are going to have to hold back the development of their businesses.

When we start off a GST system, we have to acknowledge that there are 56,000 organisations in Australia currently lodging wholesale sales tax returns. It is no different to the government's own estimates that there will be somewhere between 1.4 to 1.6 million businesses registering under a GST. Our international experience and from the 150 countries I have been involved in with GST and VAT systems is that many more register than are estimated. Where you have the majority selling one ice-cream or hot dogs or a piecemeal worker or an independent contractor, these people do not have computers. These people do not have modems. These people do not have manuals. These people do not understand that the tax department is working towards a paperless office where they will have to transmit electronically. The cost is significant.

In relation to education, we need to understand that the GST is on top of what we have, whether it be our trust loss provisions or lecturing to 6,000 businesses, as I am at this very moment, on the new FBT tax reform changes. They are very intricate. A GST comes on top of this. To say it simply, articulately and in a cogent way, you cannot. You have to put the long yards in. I tend to believe in my heart that businesses will learn it within 12 to 18 months, but it is going to be a significant cost to them. There are day-to-day impacts that they are going to need to look at.

The government has made the statement that the cost of a GST, and I refer to page 1 of my submission, which is about the fourth page in here, will be \$130 per firm. That is less than 100 hours of chargeable time for an accountant or lawyer. What I would like to do is show you an annexure to the document you have here today which works through the \$7,000 in costs to businesses. It is part of attachment A at page 13 of the document you have been given.

I deliberately did this exercise using exactly the same criteria as the Howard government in acknowledging the role of the *Yellow Pages* report, identifying that there was a \$7,000 cost to small businesses. The Howard government acknowledged that you use the time cost in an organisation working on a practitioner's or an owner's time. The schedule on page 14

more particularly cuts to the chase. It includes certain assumptions. The assumptions are the annual salary of the business owner—we are using the Australian Bureau of Statistics figures—the number of hours worked per week and the number of weeks per year. So we come up with a gross salary of \$833.

There are basically five components to this estimated \$7,000. Every small business will obviously have to buy a suite of software whether they are a wholesaler, a manufacturer, a retailer, an importer or an exporter. The National Taxation and Accountants Association contacted 400 software organisations to find out a range of costs. They ranged from \$800 to \$10,000.

Senator CONROY—We were told a \$150 package will cover it?

Mr Regan—I have tremendous difficulty in that statement. When I show you the process that is involved—and I can be only as honest as I am capable to be here—that will be a nonsense. The software is going to have to align to that particular business. The suites of software, together with the manuals that will need to be written, together with the accountant attending the premises—understanding small businesses do not have internal accountants, they do not have that infrastructure inside—our estimated cost there is \$2,000. This \$2,000 does not consider any purchase of a computer. The \$2,000 does not consider purchasing cash registers. It does not consider point of sale terminals, changing machine operated coin vending machines or anything like that.

We considered that any business person would need to spend approximately 40 hours to understand what a GST means to their business both today, tomorrow and in the future. There is our additional \$833. I am going to try to show you the actual step-by-step part where you will be able to reconcile back to these figures. You can understand that when I make a sale that I am accounting for GST almost second by second, minute by minute and hour by hour. We, in the most conservative sense, believe that three hours would be taken up each week to process the GST component, remember the tax department is going to be monitoring this and you are going to have a minimum of 4,400 additional auditors. The main process that the tax auditor will look at is whether I have incorrectly claimed my GST credit. In doing that we put a figure of \$3,024 annually—that is 144 hours at \$21.

Then of course there is the time for preparing, lodging and transmitting returns. The figure for the returns there is three hours for 12 months. Remember the background to this. The government has already acknowledged from the *Yellow Pages* that it was \$7,000 under the existing regime. A GST is nothing more than a completely new tax system for anyone who has actually worked in that particular area. Of course then there is an annual reconciliation.

Senators, just to show you more succinctly and in more particular detail what the steps are, I turn to page 3 of my report today, which looks at the requirements for a GST. As one accountant who prepares returns and who possibly knows the process better than most I would like to objectively show you what the six steps are. They are on page 3: register for GST; train staff in the new procedures; implement new systems to assess GST on every transaction; provide new specifically designed tax invoices—you do not get an input credit without a tax invoice; account for GST paid on purchases, implement systems to capture the

amount of GST paid on transactions and claim credits on a monthly or quarterly basis; and most importantly under self-assessment, ensure record keeping complies with the strict requirements. Of course if they do not comply with strict requirements, then they lose their credit.

Following on from that I turn to page 4 to try to objectively and honestly show you the time costs. You have to understand that businesses will need to employ external accountants, bookkeepers or people with skill and acumen in GST because they have to ascertain the GST position of contracts being entered into now and on 1 July 2000. They have to review leases, hire purchase, rent and property transactions. They have to start claiming back sales tax on their stock that they have already paid wholesale sales tax on. They need to obtain formal valuations on property which is part way being constructed and come to terms with—and I am sure you have already been presented with this—the complex transitional provisions.

So we see from there that this is not a simple tax. Let me say to you that accountants are not finding this easy. If accountants and lawyers are not finding it easy, I can assure you businesses would not. On page 8 we look at the confusion on entry to a GST. It is complex. You will see on this page basically a dozen points that show you the step-by-step intricate processes. This is not a play on words, this is not a beat up; this is reality. The reality is that business will have to spend a lot of time in their compliance.

I take you back, Senators, to page 15. What I would like to look at on page 15, apart from the time cost of \$7,000—and, hopefully, I have clearly illustrated that by those step-by-step procedures—is the 228 hours. That is the annual time I spend looking at my software, enhancing my software, training my staff and making sure that I comply with a self-assessment environment which really is too much burden on anyone. That would mean effectively on top of what the government acknowledged from the *Yellow Pages* report of 240 hours when it came to power in 1996—and I did acknowledge that—there is an additional 228 hours.

The GST does not grow someone's margin, it does not grow their profit and it does not grow their market share. As a person who has been in business for 22 years I know that the more you cost small business money the one thing I am going to do is put off staff. I have to put off staff because wages are my biggest expense. If wages are essentially 40 per cent of my total cost in the business, I am simply in an irrefutable position where I have to put off staff in that area.

Apart from the time costs and apart from the hours that it has taken, I would also like to say that my experience in tax law is that a good law is a law that you do not need to go to an accountant on and a good law is a law you do not need to go to a solicitor on. A good law I would have thought as part of the hallmarks and the sterling qualities of the Tax Law Improvement Project is one that the average person in the street can understand. No average person in the street will understand a GST. There is only one thing that will happen: small businesses will be penalised for making mistakes. The tax department, as it did in the system with FBT, is going to penalise them because they would not have the necessary time to put into a GST on top of their ordinary activities.

CHAIR—Mr Regan, can I just interrupt. I want to allow sufficient time for the committee to provide questions to you. Are you close to concluding?

Mr Regan—Yes, and thank you for that. If I can turn you to page 9, which looks at the anti-avoidance provisions. Senators, on page 9 when I look at the anti-avoidance provisions I see the wish list of the tax department. This is the wish list of Australian Taxation Office. It wants the ultimate interference on small business. It wants to tell you that, if you have entered into a transaction, you did not enter into it, or if you did not enter into it, you did. Subsection 165-55 simply is legislation that is out of control. If we are to have businesses that feel comfortable to make decisions, to employ staff and to invest capital, you cannot have a position where the tax department, unintentionally or intentionally, is going to disrupt business. That subsection needs to be rewritten and the government needs to work with organisations such as us and other bodies to make sure that it will not have unintended consequences.

Finally on page 12, I think we need to be careful that the GST does not apply to people such as exporters who at the end of the day will not be having taxable sales who will have to pay tax on their inputs. I have given a detailed analysis in the final two pages about one exporter who will end up going out of business because he cannot afford to fund the input credits. That is in attachment B on pages 16 and 17. Similarly, it may be that the input credit would need to be given to businesses much earlier than even one month, possibly within five to seven days. Ultimately it is up to us in Australia to ask: are we genuine about a tax system that is simple, that can be understood and that will not have victims? Remember a GST is on top of the FBT, the income tax and the capital gains tax. Thank you.

Senator GIBSON—Mr Regan, how many financial members are there in your association?

Mr Regan—We have approximately 4,500 financial members.

Senator GIBSON—We have had evidence from the other major accounting bodies—a couple of weeks ago from CPAs and this morning from the institute. They were claiming they were speaking on behalf of 30,000 from the institute and about 80,000-odd from the CPA. Can you tell the Senate committee where your 4,000 fit into the over 100,000 accountants? I might add, as you know, their evidence to us was very supportive of the government's tax package.

Mr Regan—In terms of where our members come from, to our understanding about 90 per cent are members of the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants. The NTAA is clearly the market leader in terms of training of accountants. It clearly has the highest attendances of accountants. Since we get approximately 200 telephone calls a day and over 25,000 telephone calls a year, with seven specialist operators handling our calls, we know that we are at the coalface. I lecture to tens of thousands of accountants, whether they be in business or in practice. I suppose many of our accountants have joint memberships. We are very happy that we are at the coalface.

When you see the type of analysis that I have just referred you to specifically and look at that step by step, such as on page 3 and on page 4, it is an insult to anyone's intelligence

who is at the coalface and who really is practising with knowledge to say that you can come up with a figure of \$150. Senator, with all respect you are talking about legislation, as I refer to in this report, that is already 540 pages long.

Senator GIBSON—Mr Regan, how can you say you are very representative when you speak for 4,000 accountants—

Mr Regan—I will correct that: 4,500 accounting firms, which is 20,000 accountants. Each firm could have anything from one to 50 accountants working there.

Senator GIBSON—Okay, but on the other hand we have had over 110,000 or so accountants represented by the other two much larger bodies who are basically supporting this. I will go on about costs in a minute too. I know you get a lot of publicity and make a lot of, if I might say so, outrageous statements at times.

Mr Regan—You may be misinformed, Senator, but I cannot apologise for that.

Senator SHERRY—So does the Treasurer.

Mr Regan—What is your point? You just seem to be going round in circles.

Senator GIBSON—I am wondering who you are actually speaking for. Obviously you are not speaking for the accounting profession as a whole, because the much larger bodies have come and given evidence quite contrary to yours.

Mr Regan—The reason why the merger between the society and the chartered institute failed is that those members do not believe that their management—those people whose faces you have seen—represent them. We can go round in circles on that. The facts are in this document about the step-by-step processes that are involved in registration. The rest of it is circular. Those steps are irrefutable and undeniable. The reality is they will cost time.

Senator GIBSON—Let us look at a bit of that. The last bit of evidence we had this morning was from the institute. In answer to queries from Senator Sherry as to what would be the cost of additional software to cope with the GST for a firm that is already computerised, the estimate was \$150. Why? Because there are already software packages currently available from New Zealand which have been in use for a long period of time, packages with very small modification needed. Is that not true?

Mr Regan—Senator, you have missed the point. You have made a fallacy of your whole argument—that is, you are assuming that people are computerised. You made a statement. You cannot recant that statement.

Senator GIBSON—We are just talking about the businesses that are computerised.

Mr Regan—But that is not my submission. My submission is 1.5 million that are not. My submission is that 56,000 are lodging returns. The fact is that these people do not have an accounting system. You are going to stage 2 without looking at stage 1.

Senator GIBSON—Also earlier this morning Ian Langford-Brown said, again in answer to queries from Senator Sherry about people who are not computerised, that people without a system have another two columns on their cashbook and have to add up the GST collected from their sales and the GST from their purchases. We have had other people quoting evidence from New Zealand that with the current system in New Zealand it only takes 10 to 15 minutes for small businesses to do the add-ups of their sales off their bank statements and also to add up their purchases, again off their bank statements, on a two-monthly basis.

Mr Regan—Do you know what businesses are scared of most? The tax department and the omnipotence of it. They know that there are going to be 4,400 storm-troopers or soldiers out there who will be looking at whether they claimed their credits correctly. That is the reality. If you were in practice you would understand that.

Senator O'CHEE—I do not think you are answering Senator Gibson's question. He asked you where you get justification for 228 hours a year when in New Zealand the experience is that it takes a small business 15 minutes a period. Leaving aside all the rhetoric and hyperbole about storm-troopers and Darth Vader, we are asking you: what is the rational basis—

Mr Regan—Have you been through a tax audit, Senator?

Senator O'CHEE—I have one at the moment; I am not worried. What is the rational basis for your claims in light of the New Zealand experience, which puts it at 15 minutes a period? We would just like you to give us some rational and reasonable explanation for your comment.

Mr Regan—I will repeat it again. It is quite a clear document. All you need to do is go to the very basis on page 14, where the Howard government accepted the Yellow Pages report. You may remember in—

Senator O'CHEE—Let us be honest about this. When we were talking about business deregulation, the government was talking about all of the regulations business has to comply with—not tax, not—

Mr Regan—Did you understand that report, Senator O'Chee?

Senator O'CHEE—not GST. I am saying to you that you are grossly misrepresenting the facts.

Mr Regan—I do not think you understood the point here.

Senator O'CHEE—Mr Regan, do you believe you are an impartial commentator on this?

Mr Regan—Most certainly.

Senator O'CHEE—Can I take you to some of your press releases?

Mr Regan—Please do.

Senator O'CHEE—In a press release dated 17 August 1998 you said, 'GST results in 32 per cent drop in sales for small businesses'. Do you stick by that press release?

Mr Regan—Yes, because businesses—

Senator O'CHEE—Do you stick by everything in that press release?

Mr Regan—Do you ask questions and not allow an answer?

Senator CONROY—He always does.

CHAIR—Order!

Senator O'CHEE—You said, yes, you stick by the thing. Do you stick by everything in that press release?

Mr Regan—Yes I do otherwise it would not be published. Indeed, as a person who deals with business eyeball to eyeball, which unfortunately you do not do—you do not speak to them daily and you do not lecture to them eyeball to eyeball—

Senator O'CHEE—No, I do not lecture businesses, but I talk to them.

Senator CONROY—Stop cutting him off and let him finish his answers.

CHAIR—Order! Lunch is being held shortly. We will get there quicker if we do this in an orderly manner. While you were asking questions, Senator O'Chee, you seem to have broken in on Senator Gibson.

Senator CONROY—It is a tirade.

CHAIR—Please ask your questions and allow the witness to answer.

Senator O'CHEE—If we get succinct answers, we will get through it much quicker.

Senator CONROY—How about succinct questions?

Senator O'CHEE—Listen, Reg, just hop back on the bus. Mr Regan, you said in this press release that alcohol will go up 10 per cent, but it is not going up 10 per cent in the tax package, is it?

Senator SHERRY—It is! The across the bar price is a 10 per cent increase.

Senator O'CHEE—Alcohol is going to go up 10 per cent?

Senator SHERRY—We have had expert witness on that, Senator O'Chee.

Mr Regan—Senator O’Chee, what you need to understand is that small businesses and medium businesses have held back price increases for years. A GST is going to be their opportunity to say, ‘If you want us to survive and if you do not want us to put off 200,000 people or for there to be any job losses, the only way we can do that is to charge the full increase.’

Senator O’CHEE—You say sporting equipment is going to go up 10 per cent.

Mr Regan—Certain sporting equipment will.

Senator O’CHEE—What is the sales tax on sporting equipment at the moment?

Mr Regan—I am here to talk about the compliance costs. If you want to muddy the waters, by all means do that.

Senator O’CHEE—You are saying that sporting equipment is going to go up 10 per cent because of the implementation of a GST. What is the existing sales tax on sporting equipment?

Mr Regan—I did not understand that this was a committee I was going to be talking to about sporting equipment. If that was the brief that I had to represent here today, I would be answering that.

Senator O’CHEE—I just asked you: do you support everything in this press release?

Mr Regan—Yes, otherwise they would not be issued—

Senator O’CHEE—So you are an expert on tax?

Mr Regan—Yes, on the—

Senator O’CHEE—What is the sales tax on sporting equipment?

Mr Regan—You are wasting my time. I am here—

Senator O’CHEE—No, you are wasting my time.

Mr Regan—I am here because I am concerned about small businesses and the issues that confront them. The Howard government acknowledged the basis of the Yellow Pages report in 1996, which was to take into account the time of an organisation in complying with statutory requirements. It used the basis of an hourly rate. That is exactly what is noted to you on page 14.

Small businesses want to believe the Howard government and the mantra that was chanted by John Howard—

Senator O’CHEE—Can we deal with the question?

Mr Regan—that he would cut by 50 per cent the red tape and that he would not interfere with their business. This is an interference in their business.

Senator O'CHEE—Now that we have had the tirade again, I am asking you a very simple question. You have said that the price of sporting equipment will go up by 10 per cent. What is the existing sales tax on sporting equipment?

Mr Regan—Senator, if you wish to ask me questions because you have nothing better to do rather than look at some press release—

Senator CONROY—Take it on notice and post it to him.

Mr Regan—That was not the brief of today's session whatsoever.

Senator O'CHEE—These are the comments that you have made about tax reform.

Mr Regan—That is not in my submission of today.

Senator O'CHEE—Can I go to another press release?

Senator CHAPMAN—We are here—

Senator CONROY—Take it on notice and just post it to him.

CHAIR—Order! Just for a second, I would ask that everyone take a deep breath.

Senator CHAPMAN—Mr Regan, do you accept that we are here to examine the terms of reference under which this committee is operating and to examine witnesses in relation to those terms of reference?

Mr Regan—I do, on the basis that today's briefing, as communicated to me, was on the compliance costs to small businesses and their direct effect on individuals.

Senator CHAPMAN—That is one of the terms of reference; we are here to examine all the terms of reference—

Mr Regan—That is my understanding.

Senator CHAPMAN—and Senator O'Chee's questions are consistent with the terms of reference.

Senator CONROY—You can ask him a question about the price of frogs, if you want. But his submission is here, in front of you.

CHAIR—Order!

Senator O'CHEE—Mr Regan, perhaps I will just take you through some of the other comments you have made about tax reform. You have said in this same press release:

We reviewed the situation of a takeaway business increasing the cost of a cappuccino from the existing \$1.60 amount up to \$1.80 under a 10 per cent GST in Melbourne and the same cappuccino being \$2, as the current price, up to \$2.20 under a GST in Sydney. The customer's negative reaction to a dreaded GST was the same in each state—that is, sales went down a staggering 32 per cent. In Melbourne they plummeted from 220 cappuccinos being sold a day to only 150, which is alarming.

What sort of a study was this?

Mr Regan—You tend to find things amusing. These are actual studies—

Senator O'CHEE—What studies? I am asking you to explain them.

Mr Regan—of accountants, with clients who run businesses, who went to those clients to look at price increases and consumer reaction. These are real situations; they are not just some imagined ones. It shows that in the inelastic marketplace, when you start increasing a cappuccino from X to Y, the market has a choice; that market may say to the businesses, 'We're not going to pay that additional price.' That means that small business, whether selling fish, cheese or cappuccinos, is the big loser. These are the surveys that are undertaken, yes.

Senator O'CHEE—Do you have the results of this survey documented?

Mr Regan—Yes, we have the information in Melbourne, and I am happy to make any information available to you.

Senator O'CHEE—Did you tell the consumers at the same time that they would get income tax cuts?

Mr Regan—We dealt with the issue about the price of a product going up. When a person is selling a cappuccino, they are not going to start giving a rhetoric—as you may enjoy doing when looking in the mirror—as regards increases in cappuccinos.

Senator O'CHEE—Listen, Mr Regan, I asked you a very simple question—

Mr Regan—Yes, and I gave you an answer.

Senator O'CHEE—did you or did you not tell them, when you asked them these questions, that they would have an increase in their disposable income?

Senator CONROY—No; you spent \$20 million on an advertising campaign to do it.

Senator O'CHEE—Did you or did you not, yes or no?

Mr Regan—We asked them, 'Under a GST regime, would you continue to buy cappuccinos if they went up in price?' Your government—

Senator O'CHEE—Mr Regan, I am asking you a very simple question—

Mr Regan—The answer is: yes, they were given adequate information to make an informed decision.

Senator O'CHEE—You told them that they would have personal income tax cuts?

Mr Regan—We spoke to them about the GST taxation regime.

Senator O'CHEE—In other words, the answer is no.

Mr Regan—No, they are your words, Senator.

Senator O'CHEE—Look, you can answer it either yes or no; it is very simple. Let me go back to your submission. You make a comment in your submission about—

Mr Regan—You are actually referring to that document now, are you, Senator?

Senator O'CHEE—Mr Regan, you said that you stood by every one of your press releases; you said that you stood by every one of them. Yet you could not even answer a simple question on them.

Mr Regan—Because you did not want to get an honest answer.

Senator CONROY—That is your opinion, Senator O'Chee.

Senator O'CHEE—Mr Chairman, are we going to have continued interruptions from Senator Conroy?

Senator CONROY—Are you going to stop badgering witnesses and not letting them answer questions?

CHAIR—Would everyone just settle down.

Senator CHAPMAN—Listen to the pot calling the kettle black.

Senator O'CHEE—Mr Chairman, I assume that you are calling Senator Conroy to order?

CHAIR—I am calling the whole of the committee to order.

Senator O'CHEE—Some of us are just trying to ask a question, and we are getting answers from the table.

Senator CONROY—You are trying to answer your own questions.

CHAIR—We are now at the time in which we would normally have suspended hearings for lunch. But I am going to penalise the committee by extending so that we can give a fair round of questions to the committee. However, having said that, the call is with you, Senator O'Chee. I do ask the committee to observe decorum and order.

Senator MURRAY—And courtesy.

CHAIR—And courtesy.

Senator O'CHEE—Mr Regan, on page 3 you state:

These burdens are generally well beyond the economic and human resources capacities of most small and medium business enterprises.

But, in New Zealand, small and medium businesses have managed to comply with a GST regime which is probably more complex than ours.

Mr Regan—If I can just respond, on page 7, let us just look at our taxation system right at this moment. In two weeks time, we have the new FBT reform changes. These are massive and they involve a massive impost on businesses in passing the fringe benefit value on to employees on group certificates. We have the year 2000 compliance problems. We already have the 'end of year' and the need to meet with an extremely complex taxation system.

With your points in looking at New Zealand, you are assuming that the scenario with Australia and New Zealand is one of apples with apples. It is not. New Zealand does not have trust loss provisions, it does not have a FBT regime such as ours and it does not have a capital gains tax regime. We have a massive Income Tax Assessment Act that has not been changed. A GST, in all objectivity rather than subjectivity, is a very significant change on top of what exists. Senator, you just have to look eyeball to eyeball with small businesses to know their concern about this issue.

Senator O'CHEE—Mr Regan, can I just draw your attention to your own submission?

Mr Regan—Please do.

Senator O'CHEE—On page 3 it is stated:

These burdens—

and it refers to six points above that all relate to GST—

are generally well beyond the economic and human resources capacities of most small and medium business enterprises.

Your own submission refers to GST. I am asking you: why do you believe that Australian businesses cannot cope with these, whereas New Zealand businesses can? Are you saying that Australian business men and women are less intelligent than people across the Tasman Sea?

Mr Regan—Senator, listen very slowly to my words: the tax system in this country, Australia, is more complex—speaking as a person who understands and communicates it—than it is in New Zealand.

Senator O'CHEE—But your submission refers here to the GST, Mr Regan.

Mr Regan—Yes, because—are you listening?

Senator O'CHEE—Yes, I am listening. You are not listening.

Senator CONROY—Stop interrupting and let him answer the question.

Mr Regan—Senator, I am doing my best here.

Senator O'CHEE—Your submission relates to GST.

Senator CONROY—Will you let him answer the question?

Mr Regan—Senator, the reality is that a GST—and listen to my words carefully—is in addition to our existing very complex income tax regime. So the term 'in addition to' means—

Senator O'CHEE—That does not appear anywhere on page 3, Mr Regan. We are talking about the submission. You ask me to ask you questions about the submission. You obviously have not read it. I would suggest that you go back and read it very slowly, Mr Regan.

Mr Regan—Senator, your ignorance to the understanding of tax law is detrimental.

Senator MURRAY—Mr Chairman, please; I must protest at this. I just find this offensive. I think Senator O'Chee's line of questioning is legitimate but I really do object to the tone and manner.

CHAIR—Thank you, Senator Murray. I must say that I think Mr Regan is managing to hold his end of the debate up. But I do note your comments and I think they are a fair observation. I ask the committee to note them. I do not direct that specifically at Senator O'Chee; I ask the committee overall to note them.

Senator O'CHEE—Mr Chairman, I have finished my questions.

Senator CONROY—I come back to the discussion we were having earlier with the institute—and this has already been raised—about the issue of \$150 for just plucking the new package. I know that you mainly have been talking about the people who do not have computers, and I will come to them in a minute. But, for those with computers, is it as simple as \$150 and, I think you said, two hours training?

Mr Regan—The answer is irrefutably no, and I think the attestation of that can be seen on page 2. On page 2 we are looking at the legislation that is tabled in parliament at this stage. That shows that already there are 540 pages. To analyse that then means that we need to look at the systems to ensure that they comply with the law, to ensure that people are correctly claiming input credits; in other words, ensuring that transaction by transaction it does it right.

I imagine, in all fairness, that there will be a reduction in packaging over 18 months or two years. But initially all software developers and all software writers—who normally to write any program, including those for big organisations who will be spending \$½ million to millions of dollars—are going to be looking for some type of payback for writing those programs.

I may be ignorant here, but I have not seen any major creditable, reputable software house publish that they are going to sell a suite of software for \$150 that meets 900,000 businesses. I certainly have not seen that and, until that is produced, I would imagine that that is about one-tenth at the least. We have ranges from \$800 all the way up to thousands of dollars. That would be our concern.

Senator CONROY—Do you think it is possible to just pick up one that works in New Zealand and plonk it on top?

Mr Regan—No.

Senator CONROY—Surely, as a computer programmer, you are going to have to sit down, put the disc in, turn it on and say, ‘Where do I have to make changes to delete New Zealand and write Australia?’

Mr Regan—Yes.

Senator CONROY—Given the sorts of costs that will be—

Mr Regan—That is right. GST is almost looking at it industry by industry, and it is also in all ways understanding the difference between wholesalers, manufacturers, retailers, practice entities, service trusts. We do not want to show disrespect to proper software products. They will be done properly and there will be a costing of that. I can only defer in that what the committees need to do is call on external suppliers to cite their costs. Having just had one small bit of software that analyses capital gains tax written, I can assure you that our actual costs internally were something like \$½ million; these are big costs. So I do not think we are going to get that.

But, again, my concern is that so many small businesses do not do their records—and I am saying that truthfully—on computer. These are ongoing costs, and there will be amendments to this legislation. By the time that total legislation is passed, it will not be 540 pages, it may well be 700 pages. The software suppliers are not going to be sued for negligence, for robbing the tax department unintentionally, unless they have the due diligence procedures.

Senator CONROY—You would say that the majority of small businesses operate without a computer system?

Mr Regan—Most certainly. The reason that they are not registered for wholesale sales tax is that they are not doing their \$50,000 turnover. Small businesses here that are materially intensive and equipment intensive will have to register. The tax department is clearly on notice as going for a paperless office; that is, by the year 2000—and it may now

be the year 2001—they want things to be lodged electronically, and it is insistent. I must say that, even now, tax returns have to be lodged from us on individual returns electronically. If we do not lodge them electronically, the client does not get the return for about 16 weeks and that is the only way we can get the seven-day turnaround.

Small businesses will be confronting a paperless office; and credit to the ATO, it is acting within its staffing. So small businesses will need computers. They do not have them at this particular stage. That capital cost is a minimum of \$5,000, and that has not been included in this report.

Senator CONROY—As has already been indicated, the institute put to us earlier that all that is needed to be done by these people about whom you are talking is ‘two extra columns’. That is all they need to do. What can be the problem with that?

Mr Regan—A tax that in its first year will bring in a \$30 billion to \$38 billion amount—and we imagine that by three years it will be a \$50 billion amount—is not that simple. If it is serious to the government to collect that money, it is serious that we have the correct accounting systems. So I think it is naive and insulting to say, ‘Just put two more columns in there’. That just assumes that a GST does not change the taxing basis with which taxable sales occur. It is not that simple.

Senator SHERRY—We often hear in the context of this debate that the current tax system is broke or broken. I am sure that you would have heard that expression.

Mr Regan—Yes.

Senator SHERRY—I was doing some light reading last week and I got to page 287 of the *Shorter Oxford Dictionary*. There it said ‘broke or broken: without money, penniless, ruined, bankrupt’. I think that would be a reasonably understood common meaning of the words ‘broke or broken’. Would you describe the current wholesale sales tax system as broke or broken?

Mr Regan—No, I would use the word ‘archaic’. Also, for what my opinion is worth, I believe that the Tax Law Improvement Rewrite Project, which your government introduced, is the perfect effect vehicle to allow the rewrite of that without putting the angst, the bane, the burden on small business. You have the infrastructure. You have done it with income tax. You are doing it with CGT. You are doing it with the other divisions. It has been very helpful, it is clear words.

So I would not say that it is broke; I would say that it is archaic. I would also say that the perfect vehicle to use is the Tax Law Improvement Rewrite Project, rather than thrusting a GST on businesses. The GST will not stop tax cheats; it will not mean that big businesses pay more tax; and it certainly, again, will not prevent job losses. We have a solution. The solution is to use the Tax Law Improvement Rewrite Project—because it is not broke, but it is very much archaic.

Senator SHERRY—In terms of broke or broken, obviously there is one argument we could look at as to the efficiency of the system. In terms of the efficiency measurement of

costs for businesses that you represent, would you say that a GST, is more costly than the WST it is replacing?

Mr Regan—It is, because we have to look at: where does wholesale sales tax apply? It does not apply to services. It applies to a limited range of goods. Many of our organisations are services, whether they be financial, sporting, recreation or leisure; whether they be market stall operators. In other words, they are selling services.

At the end of the day, governments have to be given enough money to run the country and, in all fairness, we need to have a responsible taxation regime. But it has to be a burden to them because, when you only have 56,000 people lodging monthly returns, and all reports are—and I stand to be corrected—that you have somewhere between 1.4 to 1.6 million registering, it tells you that there is a tremendous cost on people because they do not have the systems for that. That means they will be charged additional accounting fees; that means they will be charged ongoing fees—and, remember, that is on top of what already exists.

Senator SHERRY—In answer to a question from Senator Conroy, there has been some reference to evidence we received earlier. Indeed, I posed some questions about the costs for businesses that have current computer systems and those that do not and that will have to presumably set up new record keeping systems—computerised or otherwise. You can take this on notice: could you provide us with some material from these computer firms—I have to say we have not had any evidence direct from computer firms about these costs—on the types of systems and the costs associated with those systems for both businesses that do have a computerised system and those that do not? If you could also try to categorise it into small, medium and large businesses, because I understand the costs would be different.

Mr Regan—We will certainly endeavour to obtain and produce that information to the committee, because I am just as keen that that be honestly shown as anyone else. That seems to be very much needed in this committee.

In terms of statements and accuracy and otherwise, if I can very briefly make a comment: in my attachment C, I referred to the government's tax scale document, which is the new rates of tax to come in from 1 July 2000. Prime Minister Howard has noted that 95 per cent of Australians will be paying less than the marginal rate, which is 47 per cent and 1.5 per cent in Medicare levy. We accept that as a statement of fact. We also accept that 81 per cent will be paying less than one-third. Because these rates are not indexed for inflation and because they are not increased for people's wage movements, as you will see in attachment C, we called on an independent actuarial organisation to use the Australian Bureau of Statistics records to say, 'At what point in time with bracket creep when I go up from one scale of tax to the other'—in other words, when I traverse from the 30 to 40 to 47—'will it be that every Australian, every full-time adult employee, will be paying both 48.5 per cent and also the GST?'

You will see from this published report by Financial Synergy, who equally does work for government as well as for industry, that we have a maximum period of 12.9 years to a minimum period of 6.6 years. So within 6.6 years to a maximum of 12.9 years, every full-time adult employee—using Australian Bureau of Statistics figures to come in from 1 July

2000—will not only be paying 48.5 per cent but also be paying an effective 60 per cent as we expect the GST rate to go up to 12.5.

CHAIR—Thank you, Mr Regan.

Senator CONROY—I had one final question: you mentioned earlier about the black economy and that the GST would not arrest and catch. We had evidence this morning from Mr Walpole of ATAX, an academic, who suggested that there may be increased incentives to go into the black economy to avoid the compliance costs. Do you have any comment on that?

Mr Regan—That point is so relevant, because one of the hallmarks of a GST, as I understand it, is equity in a vertical and horizontal tax system. If I am a restaurateur and I am currently putting \$1,000 in my pocket just dealing with other people, dealing with the black economy, now I am going to put \$1,100 in my pocket. If I want to cheat the tax system, all I need to do is buy my paintings through the boardroom of the business and I am going to start getting input credits that I would not get before.

The bottom line is that tax evasion in Australia—whether it be through prostitution, drug money or sophisticated transfer pricing—is done through very orchestrated, controlled operations. These organisations will gleefully smile. Look at the experience in England particularly, and it is documented experience; look at the experience in Italy; look at the experience in Israel—all of them have shown that the black hole cash economy simply grows. In all fairness to the ATO, they just do not have the resources and the wherewithal to control that. That is why it is already out of control.

My concern is that within five years this government will claw back many social security benefits and programs simply because it has not brought in the revenue it expected. So it is clearly an alarm bell. For neither the government nor the tax department to have any solution other than a GST is simply an open door to take further advantage of a tax system that seems to encourage those that cheat it rather than those that try to comply.

Senator CHAPMAN—Mr Regan, the essence of your submission has been on the cost of compliance, as you have said, and you claim to have done very detailed analysis about what the cost of compliance for small business will be with regard to the GST. On 28 August you put out two press releases quite fulsomely praising the Labor Party's tax policy. I will quote a small part of one of those press releases:

. . . individuals who don't want to pay a 10 per cent GST tax . . . will happily accept the Labor Party's Tax Policy, which doesn't include a GST.

With regard to the cost of compliance, did you subject to the same detailed analysis a very important part of that tax policy, which was to subject assets owned prior to 1985 to capital gains tax?

Mr Regan—Yes, sir. You may remember that I was part of the lead story on the *7.30 Report* that savaged the Labor Party for clearly an unconscionable mistake of trying to

change pre into post assets. I think that is clearly published. In fact, the government of the day used the quote that I used on the *7.30 Report*.

Senator CONROY—That is right.

Senator SHERRY—A savage attack on the Labor Party.

CHAIR—Order! Senator Chapman has the call.

Senator CHAPMAN—Mr Regan, in this press release you say that people will happily accept the Labor Party's tax policy; you do not qualify that at all.

Mr Regan—Happily accept it on the basis that a GST hits and savages individuals—it only rewards tax cheats and big business.

Senator CHAPMAN—No, you are talking about Labor's tax policy here, no qualification.

Mr Regan—Senator, if you listen to the *7.30 Report* subsequent to that and the countless radio interviews, I think I made it very clear. If you look at the transcripts of those radio interviews, you will see that we were extremely critical—as all accountants had to be—of the capital gains tax approach of which the Labor Party resiled appropriately.

Senator CHAPMAN—But no media release to that effect.

Mr Regan—In fact, in September when I came out of the launch by Gareth Evans, my comments to the media were to criticise that particular comment. So there was a comment—not a press release—that I did make to the media at that stage.

Senator SHERRY—We remember it.

CHAIR—I think we are done. I thank you, Mr Regan. The level of adrenaline has probably lifted during your presentation, which will whet our appetite for lunch. Thank you for assisting the inquiry.

Proceedings suspended from 12.48 p.m. to 1.36 p.m.

GELSKI, Mr Richard, Legal Adviser, Australian Olympic Committee

MERCER, Mr Michael Andrew, Director, Corporate Services, Australian Olympic Committee

CHAIR—I welcome representatives from the Australian Olympic Committee. The normal procedure is for you to address us reasonably briefly, give a summary of what your submission contains and then make yourselves available for questions from the committee.

Mr Mercer—I am here on behalf of the Australian Olympic Committee. I am the director of corporate services and am ably assisted by my adviser, Mr Richard Gelski, particularly on a technical front. Initially I would like to differentiate the Australian Olympic Committee from the myriad of organisations containing the word ‘Olympic’ that currently exist.

CHAIR—Like the airline?

Mr Mercer—I am not sure that exists either at the moment. We are the national Olympic committee in this country. Our role primarily is to promote the fundamental principles of Olympism in Australia and, probably importantly, as the representation of this sport loving nation at Olympic Games. We do that, we believe, by the nurturing, supporting and bringing on of the athletes of this country.

We are a non-profit body and as such I guess we enjoy at present the significant benefits and concessions that all such organisations enjoy. However, from discussions with our advisers, a number of concerns have been raised about the effect of a GST on our constituents, whether directly or indirectly through their sporting organisations—those constituents being the athletes of this country.

I guess whatever the technicalities of a GST as finally promulgated, we have made the request that the AOC be afforded GST-free status as the best possible outcome for our stakeholders—being the athletes of this country. If this request does not find favour with the decisions made by parliament, as a fall-back position we have requested that GST-free status be afforded to us until 31 December 2000 to allow us to focus on what is going to be hopefully the greatest sporting event that this country will have seen for over 40 years.

When I talk about athletes, I would remind you that the Australian Olympic team in 2000 will consist of some 600 athletes. I would emphasise that the vast majority of these athletes are non-professional sports men and women. There tends to be a view that all athletes are wealthy. That is a view that we try to dispel due to the reality of the situation. Our concern is that the athlete is going to be squeezed.

At one end, our view is that they will need more money to enable them to achieve at the highest levels at which they compete. They are not taxpayers, so they would not benefit from the tax concessions that have been promulgated; they are not pensioners to whom relief, I understand, will be given through *ex gratia* payments to cover the increased cost of living; and they are not high consumers who would benefit from savings in wholesale sales taxes.

At the other end of the equation is the AOC whose role, as I have already said, is to nurture and support these athletes, to bring them on and to provide the environment conducive to their achieving at the world's highest standard. We have concerns over the GST effect on the AOC through sponsorships, particularly those sponsors who would be input taxed, and on our fundraising activities. Beyond that, we believe that our organisation can be differentiated from the normal construct of business and that this raises special issues which are of concern to us—but all concerns being aimed at maximising the dollars for athletes of this country.

The concerns we have are at three levels. The first is grants which we pay either directly or indirectly to athletes. In effect, what we do is give away money. The ultimate beneficiaries are the athletes of this country who we hope will represent us with distinction at an Olympic Games. Our simple belief is that these grants are outside a GST altogether. They do not constitute a supply. What we seek is clarification of this position. Our concern is that, if this is not so, athletes would have to begin dealing with a GST and associated issues of registration, invoicing and accounting support. We truly do not believe this is the intention of a GST.

At a second level, the structure of our organisation is such that we have the Australian Olympic Foundation and the Australian Olympic Committee. The Australian Olympic Foundation manages the asset base of the Olympic movement in this country to provide funding to the Australian Olympic Committee. There are concerns—and even more importantly going forward beyond 2000 as we rise to the challenge of maintaining funding for sport at current levels—that the distributions from the foundation to the Australian Olympic Committee would be seen as financial supplies and that this may, in some way, block credible acquisitions by either the AOF or the AOC.

At the third level, our concern is for sponsorship revenues, particularly those sponsors that are input taxed and therefore could not claim a credit for GST paid. Sponsor negotiations are difficult at the best of times. Sponsors have limited budgets, and traditionally sponsorships are fixed amounts. So for those who are input taxed, we would clearly see a disadvantage in the net revenues that are directed towards the Olympic movement. We also have concerns over the fundraising activities that we would undertake and their being subject to a GST.

I return to the analogy of the squeeze on the athlete: the increased costs being borne by them at one end; and the squeeze on the funding and the fundraising activities that the AOC has at the other end of the equation. In conclusion, I believe we can fairly be described as exporting the image of Australia to the world. Athletes are high up there on the images readily recognised for Australia. As exporters, we come back to our initial submission that we should be GST free.

CHAIR—Thank you, Mr Mercer. Is it your intention to invite Mr Gelski to supplement or should we go straight to questions?

Mr Mercer—I think we could go straight to questions.

CHAIR—The proposition you have put to us, have you put that to the government?

Mr Mercer—We have made a submission to this inquiry and I think we copied it to the tax office. I am not sure whether we have directed it to Treasury—no.

CHAIR—Is it your intention to put it to the Treasurer that the recommendations you are putting to us should be agreed to by him and that the status you seek should be approved?

Mr Mercer—Yes. I guess we had envisaged this committee being our first point of call and had not really thought past that at this stage.

CHAIR—If I can just make a quick comment. The government has put these bills to us. It would ease our burden if you were able to persuade the government to the justice of your cause. If they would then make the amendments, that would save us having to consider what we should do. I will just leave that matter there. You are addressing us now. We have to work out from what you say what we intend to do.

You talked about the problems with gathering sponsorship because of the GST. I have noticed in the media a bit of speculation about the Olympic movement and so forth—none of which I intend to go into but just to cite—does that mean you are having problems rolling up sponsorship anyway?

Mr Mercer—No. I think our particular concern is, as I indicated, only over those categories of sponsorship and the sponsors who would be input taxed. We do have great difficulty at the moment during sponsorship negotiations in ensuring sponsors understand the workings and the effect of a GST. We try to explain to them that, if they are not input taxed, it would be neutral upon them if they were the ones who were bearing the cost of a GST. But we find it very difficult getting across that threshold issue at this point in time, because I do not think they have really considered it in terms of their sponsorships.

CHAIR—So is it fair to say that, in the face of what is more than usual attention about the Olympic movement, this is an extra burden?

Mr Mercer—We believe so, yes. We are in a unique position in this quadrennium, as we call it, where the games are being held here in Sydney. We are making strategic decisions about our future and associated sponsorships. But, yes, even beyond what you have described, we believe this would have a detrimental effect.

CHAIR—It is my understanding that, if Australian athletes at these games win a medal, they qualify for some form of payment. Can you just enlighten me on that?

Mr Mercer—Yes. One of our major programs is what we are calling the Medal Reward Scheme. It is a program that we implemented in Atlanta. It is a program we have also perpetuated through this four-year period between the Atlanta games and the Sydney games, where we have been paying money to athletes on a regular basis based on their performance. We set benchmark events which we hope will replicate the emotion of the Olympics. The competitive nature of the Olympics—in that it is only held every four years—is difficult to replicate, but we have tried to achieve that. Based on their performance, we have paid them ongoing grants for that four-year period. That is culminating in the year 2000 with the Medal

Reward Scheme, which will be a payment to them based on their performance at those games.

CHAIR—Is that payment GSTable?

Mr Mercer—I do not see that as being any different to any other grant we would pay to an athlete. As I said, we have concerns and we seek clarification over the treatment of grants. That really is one of the concerns we would be trying to address.

CHAIR—That is a cloudy area, as far as you are concerned?

Mr Mercer—We do not think the payment of grants—and correct me, Richard, if I am wrong—sits comfortably with the notion of a supply.

Mr Gelski—Technically, we believe that it does not. Technically, we believe quite straight forward that there is not a supply for consideration. It is not money being paid for a service, it is not money being paid for a good and it is not money being paid in respect of the creation of a right. In respect of the Medal Reward Scheme, there is no commitment from the Olympic Committee to make the payment. Sportsmen and sportswomen who are successful are eligible for a payment from the Olympic Committee and the committee makes that decision at the time.

CHAIR—That is the state of your belief. What is the state of belief of the tax office, do you know? Have you sought any expert ruling based on the 16 bills that will enact the GST?

Mr Gelski—The tax office has a firm policy of not issuing rulings or opinions on bills.

CHAIR—So you have a blank wall there. Have you sought any other expert tax opinion as to whether your view of the legislation is supported?

Mr Gelski—I think the bottom line is that the Olympic Committee is looking for confirmation of the view that grants to athletes will be treated in the same way as grants by government, which are in the nature of donations. They do not fit comfortably within any notion of, as I say, a supply of goods or a supply of service or the creation of rights. It does not fit within any other category. It is actually the payment of money which, on the face of it, in accordance with the bill is excluded from the notion of a supply. So unless we have some notion that exists in other systems of a deemed supply, we believe there ought not be a problem.

CHAIR—Can I just be a bit particular on this point because I think it is quite important. It is one part of your submission. There are many other facets of your submission, and I am sure other members of the committee will want to go to those as well. This is your view. The tax department will not give you a ruling up front because it is a bill not an act. From your answer, I take it that you have not got outside expert advice as to whether this is true and it is still a cloudy area as far as the government is concerned. Is that a fair summary?

Mr Gelski—I think that the best advice that is capable of being provided at this stage is being provided, but we do have a state which is in flux. We do not have a government who

is willing to make it crystal clear what the answer is. We have a tax office, I suppose to be fair to them, saying, 'If we gave our views on every bill that's issued on tax, we'd have no time to carry out the functions that we consider of more immediate concern.'

CHAIR—But there is a question mark over this, which is what we are saying, isn't it?

Mr Gelski—Yes.

CHAIR—Given that there is a question mark over this, we cannot be sure should, hopefully, Cathy Freeman win a gold medal and be stepping down from the dais with the strains of *Advance Australia Fair* dying in the background that at the bottom step there will not be a tax man with his hand out asking for 10 per cent.

Mr Gelski—I doubt that we could have created a more effective word picture had we done it ourselves, Senator.

CHAIR—We cannot be sure though, can we?

Mr Gelski—That is the concern. There was a threat during the last Olympic Games that the commissioner would be standing there with his hand out in respect of any monies being achieved by athletes.

CHAIR—Thank you.

Senator GIBSON—Mr Mercer and Mr Gelski, thank you for coming. I assure you that all senators on this committee wish you well with the organisation and with the games. Given the current circumstances though and all the fuss about management, do you think the general Australian public away from Sydney would welcome your request to us and parallel to the government for the games to be GST free?

Mr Mercer—As the national Olympic committee of this country which has had competitors at every Olympic Games since 1896, I guess one of our primary tasks and one of the primary tasks of the games in Sydney is to focus on the athletes. Yes, there is a lot of noise in the background at the moment, but I think it has always been our intention to focus on the athlete. The picture so neatly drawn by Senator Cook is also not an uncommon view that people take—that is, the majority of athletes are in the position of the likes of Cathy Freeman.

In reality, the vast majority of athletes in this country are non-professional sportsmen and women who are very reliant on the support that the Australian Olympic Committee amongst others such as the national sporting federations and the Australian Sports Commission give. They are very reliant on that funding. They are the people who we believe create the image of the games that is seen after Atlanta and after the various events are held. That really is our concern as a national Olympic committee. Our focus is on the team and on the athletes, and that is where we will wish to maintain it. Whilst it is difficult in this environment, we do hope to get back to that focus.

Mr Gelski—Senator Gibson, perhaps if I can add a little to that. Our submission is not directed at achieving a GST free games. There will be, by all accounts, an enormous amount of money that is spent by visitors to this country and by residents of this country during the Olympic Games which will be subjected to GST.

Senator GIBSON—It is all very well being here in Sydney where there is a lot of action and great interest, but for taxpayers throughout the rest of the land there is a bit of concern that there seems to be a continual absorption of taxpayers' dollars into this project. A lot of people are saying, 'Is it going to stop?' Can you understand that happening and that point of view?

Mr Gelski—I think the answer is that we do understand what you are saying, Senator Gibson. Our response to that, the response of the Olympic Committee, is really quite simple. The paramount reason for the AOC seeking to maintain its funding base is the provision of funds to athletes. Grants take the overwhelming majority of funds that are dispersed by the Olympic Committee. The source of the bulk of those funds is sponsorship. The use of it is grants going to athletes, the overwhelming majority of whom are non-professional. They are in that classic squeeze which involves them having to pay more for everything. They get no compensation for that. The pension system doesn't apply to them. The tax system and any tax cuts in the overwhelming majority of cases won't apply to them.

At the other end we have sponsors who won't be able to claim credits for any GST that they pay. So a sponsor who is input taxed could be forgiven for saying, 'I am prepared to make a sponsorship commitment of \$1 million but I won't add \$100,000 to that because I cannot claim a credit for that. So I will still give you the \$1 million—that is fine—but one 11th of that has to go to the government in GST.' So the AOC is collecting more money, the athletes need more money and the AOC has got less to provide. That is the situation that we are trying to alleviate.

Senator GIBSON—One of you said earlier that your organisation was a non-profit organisation, yet I understand that the New South Wales government has guaranteed you \$100 million profit out of staging the games. Is that correct, or have I been misled?

Mr Mercer—No. We are a non-profit organisation, the AOC in its own right. As part of the endorsement of our committee for the holding of the 2000 Games under the original contractual relationships between the IOC, the AOC, SOCOG and various other parties the AOC was entitled to a significant share of the profit from the Olympic Games. That construct has subsequently changed contractually. Yes, the New South Wales government agreed to, I guess, remove those terms where the AOC was subject to the profit, return that benefit to the taxpayer of New South Wales and provide the AOC with a fixed sum of money.

It has always been the intention of the Australian Olympic Committee from the endorsement of the games to be able to maintain the level of funding for its athletes going forward that it has been able to achieve in this quadrennium leading up to the Sydney games through the obvious, I guess, interest of sponsors and others for this period of time. We believe we have been able to facilitate that through this payment from the state government but again, that money will be invested by our foundation and the income used to fund future

generations of athletes in this country. We don't believe it is necessarily fair that the athletes of this generation have increased funding as a result purely of holding the games. One of our long-term aims has always been to increase the level of ongoing funding and this is one mechanism we have been able to use to achieve it. But it will be a capital sum and that income would be reinvested into the athletes of future generations.

Senator GIBSON—Just taking up one of the points the chairman made with you earlier about approaching the government about these issues which you have set out here, I am very surprised that you haven't made a direct approach to the government about these issues up to now. Could you outline for the committee what the Commonwealth government has contributed to this games process.

Mr Mercer—You need to differentiate between the Australian Olympic Committee and SOCOG, SOCOG being the organising committee for the games. The federal government has not funded the Australian Olympic Committee since 1992, I think after the Barcelona games. It used to fund sport in this country through the Australian Olympic Committee and I think it took a decision on the direction of the Australian Sports Commission and headed that way. So whilst I know there was a lot of press over SOCOG and the implications of GST on SOCOG and there were long and hard discussions and negotiations between those two bodies, we have not taken that approach as yet. I guess we didn't necessarily consider it in the same light.

Mr Gelski—I actually thought that this committee was the most sensible conduit to make our concerns known in the first place and certainly our submissions will be forwarded to Treasury.

Senator MURRAY—Mr Gelski, in brief summary terms, the GST system works like this, doesn't it? A business charges GST on its final price to those who consume its goods or services and it gets input tax credits on all the various inputs it has had in arriving at that final cost.

Mr Gelski—That's correct.

Senator MURRAY—You would consider sponsorship of an Olympic or any other sporting activity from the business point of view as a business activity, as a marketing activity, wouldn't you?

Mr Gelski—That's correct.

Senator MURRAY—Therefore, any tax on that business activity or marketing activity would be an input tax capable of being credited, or should be capable of being credited, like fuel or any other kind of input in the business?

Mr Gelski—Yes, I would.

Senator MURRAY—So if we established a sponsorship as a business activity, the business gets certain things back from that sponsorship exposure and so on. One of the

things it does is it asks athletes, particularly senior athletes, to appear at a certain number of sponsored events. Is that true?

Mr Gelski—That happens from time to time.

Senator MURRAY—Would, then, the Olympic committee be considered similarly to an investment trust, where it is merely a conduit through which the money goes? In other words, money comes from the business through the conduit of the Olympic organisation and is spent in grants to athletes; and senior athletes get more money than junior athletes. Is that how it works?

Mr Gelski—Senator, I am not sure that that actually works in terms of the way in which the dollars flow. I am not sure that senior athletes always get more money than junior athletes. It is really a function of how well they perform.

Senator MURRAY—But athletes are paid by the Olympic committee, yes?

Mr Gelski—No, they are not paid. That is where we make our submissions most strongly. The athletes receive grants which are totally at the discretion of the Olympic committee.

Senator MURRAY—Are those loans? Do they have to repay them?

Mr Gelski—They don't have to be repaid. There is no right to receive a payment the next quarter. The Olympic committee pays an amount for a period, which is three months. There is no obligation to make the payment again three months later. There is no right that the recipient receives as a result of a payment from the Olympic committee. So there is no provision of services in either direction. We don't have the athletes being obliged to do anything in return for that amount of money. So the athlete is not providing services to the Olympic committee.

Senator MURRAY—You mean the athlete could pack up his or her spikes and go home?

Mr Gelski—That's correct.

Senator MURRAY—But that doesn't happen in practice, does it?

Mr Gelski—It does happen sometimes, I would imagine, and the consequence would be that there would be no further payment.

Senator MURRAY—The point I am making to you is that the Treasurer has now allowed a situation—rightly, I think—where with an investment trust the business activity is taxed and the recipient of the benefit is taxed, the ultimate beneficiary. But the conduit, the trust, is not taxed. Isn't it possible to consider in terms of the submission you put, that the taxation of these areas should reside with the business and with the beneficiaries? And the beneficiaries are surely the athletes.

Mr Gelski—Senator Murray, I now get the gist of your question. The announcement that the Treasurer made allowed a flowthrough of the income directly to the recipient; so the retiree is made whole and only pays tax at his or her marginal rate. The purpose of the announcement was to achieve the elimination of the taxing at the trust—now corporate—level.

Senator MURRAY—The government has placed the taxation, quite correctly, where the benefit is received. I am suggesting to you that there are only two possibilities of benefit here. We have dealt with the business—they are already being appropriately taxed—it is either with the AOC or with the beneficiaries, the athletes; it has got to be one or the other receiving a benefit through this process.

Mr Gelski—If it is a taxable event, then that is right. We say that the grant to the athlete does not involve the supply of anything that is GSTable, if that submission is consistently followed through—whether the amount comes directly from the sponsor or from the AOC should make no difference. The result is that the athlete is providing no service, the athlete is providing no good, the athlete is creating no right in the party that is paying the money.

Senator MURRAY—But that is not true in fact. Athletes do appear at corporate functions. They do provide a service.

Mr Gelski—When they do, they are paid specifically for that appearance. It has nothing to do with the grant which they may or may not receive.

Senator MURRAY—So no sponsor ties in contracted athlete appearances and performances to their grant? A sponsor never says to you, ‘I want a certain number of appearances at my shopping centre, or whatever it is, from athletes under your jurisdiction’?

Mr Gelski—I think the answer to that is no, but Mr Mercer can confirm that.

Mr Mercer—No. The Australian Olympic Committee requires sponsors to sponsor the whole committee or the whole Olympic team; we do not allow them to sponsor individuals of the team. If a sponsor wishes to use a particular athlete, and this is a common occurrence at an event, then the sponsor pays for access to that athlete—to the athlete, I would add, not through the Australian Olympic Committee. This is not to say that sponsors do not go directly to athletes with sponsorships, but they certainly do not do that through the Australian Olympic Committee.

Senator MURRAY—Excluding particular athletes, there is no clause in any contract which says, ‘We would like appearances from athletes,’ without specification under your jurisdiction?

Mr Mercer—I am not completely au fait with the detailed wording in each contract. The athletes would, in generic terms, potentially be made available; but not specifically for an athlete. I can not remember off the top of my head, but I am not aware of it. Sponsors are sponsoring the Australian Olympic Committee and obtaining access to our intellectual property rights, which does not include the rights of athletes.

Senator MURRAY—I think I had better put it on notice, Mr Chairman. I am relatively ignorant—and I am sure my ignorance is shared—as to exactly what the business relationship is between the AOC, the sponsors and athletes, and in what sense the athletes themselves are businesses—both with regard to hospitalities, dinners or appearances and what the link in the relationship is. You can see that what matters to us—in terms of where the taxation level should apply and what kind of taxation it should be—is whether it is simply salary and the things that go with that, income tax and so on, or whether it is a business operation. So perhaps I could ask you, on notice, if you could briefly, for my purposes at least, sketch out in a couple of pages exactly what the relationship is between those three entities: the business, the AOC and the athletes in general.

Mr Gelski—I am sure that we can provide that, but the primary return that a sponsor seeks when becoming a sponsor is the right to say that they are a sponsor; the right to use the paraphernalia associated with the Olympics; the use of the rings; the use of the word ‘Olympic’ in the course of advertising and the like. That is the overwhelming thrust of sponsorship agreements. When I say that I am not aware of any circumstances where sponsors say, ‘And we require 20 athletes to be available for functions during the course of the year,’ I do not know of any contract which has such a provision, but we will certainly make that available to you.

Senator CONROY—Returning to this sponsorship question, how serious a problem would it be if the financial institution could not pass on or get an input credit? How much sponsorship are we possibly talking about as no longer being available for your pool that you then pass on, in terms of grants? Would that be the major sponsors or some of the major sponsors?

Mr Mercer—My technical knowledge of which sponsors would be deemed to be input taxed is being severely tested here.

Senator CONROY—Sorry. It says financial institutions, banks—that sort of thing.

Mr Mercer—The situation is further complicated because, at the moment, the AOC has a joint sponsorship arrangement with SOCOG. Under that arrangement we have a joint marketing program where you get the rights to the Australian Olympic Committee and the running of the Olympic Games. I think you would be well aware of the sponsorship categories of banks. Financial institutions are becoming a wider spectrum and it is a difficulty we will encounter anyway, because we offer exclusivity in each category, so the definition of the category is very important. But I think Westpac and AMP, being the current sponsors, are a significant sponsorship sum. That is not to say that the Australian Olympic Committee in our own right would not be able to achieve the same levels, but we certainly hope to see incremental growth from the previous levels that we have been able to achieve; but it would be very difficult to put a number on that at this point in time.

Senator CONROY—But it is fair to say, from your submission, which states:

Where the input tax would be blocked, the benefit to AOC would be diminished by the amount of GST included in the payment.

Mr Mercer—We believe so. If we negotiate a sponsorship with a sponsor who is input taxed, I think we would have great difficulty adding on a component of GST and asking that they bear the burden of that. I think they would certainly be looking for the AOC to wear the cost of that within the current sponsorship amount.

Senator CONROY—And the money you get from those sponsorships is used in your grants to the athletes?

Mr Mercer—Yes. We have a number of grant programs. The one we have focused on today is the medal incentive scheme which we believe is just that—an incentive to athletes to stay in sport, to be performing at its highest level. It is not the only grant program we have but, yes, that is sponsorship at this point in time—whilst the value of the Olympic rings is what it is—it is the primary source of our income.

Senator CONROY—So if I can borrow from Senator Cook's picture, as you described it, not only as Cathy Freeman comes down off the step is there a possibility of the tax man standing there with his hand out; you would be waiting just in front of the tax man with what is probably going to be a smaller cheque than it otherwise would have been because your sponsorship pool is—

Mr Mercer—We believe the total pool of funds that we would have available would be reduced, yes.

Senator SHERRY—Would it be true that the vast majority of athletes that make it to Olympic competition, including many of those that win medals, are losing money representing their country, in the sense that they have sacrificed career opportunities and work opportunities? Do you think that is generally true, from your knowledge?

Mr Mercer—Yes, very much so. I think it is easy to focus on the names that have been used here today, but in Atlanta with a medal count of some 40-odd medals that actually represented some 133 athletes who were the winner of a medal. When you see the softball teams and the hockey teams—people who are four times Olympian two gold medallists in women's hockey—the sacrifice is enormous and that is another reason why a lot of the programs of the Australian Olympic Committee are focused on career development for these athletes. Whether it be due to injury or the passage of time for them ending their sporting careers, we believe they have made an enormous sacrifice.

Senator SHERRY—Even for those who might win a gold medal, the fact is that very few of them go on to lucrative commercial advertising or promotional contracts. If you just look at the numbers involved, it would be a very small proportion, wouldn't it?

Mr Mercer—Yes, I believe so. There are some very notable gold medallists from Atlanta, for example, who have not been able to achieve for one or a number of reasons a return that they would have imagined they would have been able to achieve having achieved that pinnacle in their sporting career.

Senator SHERRY—Just as an observation, it does seem to me unfair that they should have to pay a GST on their grant after having made such a significant long-term sacrifice not just for themselves but for their country.

Mr Mercer—We do not believe there is a lot of money to be made from being an athlete even in this day and age by the vast majority of people who compete in the Australian Olympic team. Australians love to see success and they love to see winners. That is where they want our athletes to be. We want to keep every gate open and every opportunity open to enable them to achieve that.

Senator SHERRY—Thank you.

CHAIR—Thank you very much, Mr Mercer and Mr Gelski, for providing some assistance to our inquiry today. It has been a very useful submission. I thank you very much.

Mr Mercer—Thank you for the opportunity.

[2.17 p.m.]

CASSELL, Mr Brian, General Manager Finance, Rural Press Ltd

O'ROURKE, Mr Kevin John, Partner, Firmstone and Feil

STEVENS, Mrs Deanne Gayle, Group Taxation Manager, John Fairfax Holdings Ltd

CHAIR—I welcome Mr Kevin O'Rourke, Mr Brian Cassell and Mrs Deanne Stevens to the inquiry. According to my list it is you, Mr O'Rourke, that I should look to initially. I therefore invite you to introduce your colleagues, give us an overview of your submission and to be available for questions.

Mr O'Rourke—Thank you for the opportunity to be here today. I am a partner with Firmstone and Feil and I am representing a group of companies which is really Fairfax and others. It is not strictly true to say that it is simply Fairfax. I am joined by Deanne Stevens, the Group Taxation Manager for John Fairfax Holdings Ltd, and Mr Brian Cassell, who is the General Manager Finance for Rural Press Ltd. Representatives from APN News, Media Ltd and Western Australian Newspapers Ltd have been unable to attend today, but they are part of the submissions that we make. We understand too that News Ltd has made a separate submission to you. We are authorised to say that News supports the submissions that we have made. I just wanted to clarify that up-front.

Nineteen of the 23 OECD countries that have a GST either zero rate, which is known as GST-free in Australia, or concessionally tax newspapers. All of the European community countries concessionally tax newspapers. Many countries, surprisingly for some, treat newspapers the same as or better than basic necessities such as foodstuffs, medicines and even water. It is perhaps no accident that newspapers are concessionally treated. They have always been part of the fabric of a liberal democracy. They are today at the leading edge of informed political debate. With due respect to those who are present today, it is not television, it is not radio—except perhaps the ABC—

CHAIR—Unfortunately, they have left.

Mr O'Rourke—With due respect to those who were here today, it is really newspapers that today carry the informed political debate. They also play, we say, an indispensable role in the continuing education of the community. Education as we see it is not limited to that which occurs in the classroom. A tax on newspapers is in a very real way a tax on information, a tax on literacy and a tax on learning.

The demand for newspapers in Australia has fallen dramatically over the last decade and in particular over the last seven years. Circulation figures for metropolitan daily newspapers from March 1991 to March 1998 fell 7½ per cent. The circulation figures for Australia's leading regional newspapers during the same period fell 5.3 per cent. So that over that period of time only two of the 12 metropolitan daily newspapers had circulation figures which kept pace with population growth. And perhaps even worse, two of the 35 leading regional newspapers have kept pace with population growth.

We wish to emphasise the importance of newspapers in regional Australia and the continued viability of those newspapers. We see regional newspapers as being more vulnerable to decline in demand than the major metropolitan dailies and we see GST as only worsening that decline. Senators, for these reasons and those announced in our submissions we are seeking that newspapers be treated as GST-free. Of course, we would be pleased to answer your questions.

CHAIR—Thank you, Mr O'Rourke. Is it your intention to invite your colleagues to supplement or should we just go straight to questions?

Mr O'Rourke—Straight to questions.

CHAIR—Have you put this submission to the Treasurer?

Mr O'Rourke—The answer to that is no.

CHAIR—Do you intend to put it to him?

Mr O'Rourke—We are happy to put the submission to anyone whom you think is appropriate. We understood there was a process under way and that that process was that submissions were to go to this body.

CHAIR—There is a process under way. We are one half of the legislative wing of government. The Treasurer represents the executive wing and he is the one who is putting the bills before our chamber. It would help us if we had his views on what you were saying. If he agrees with you, it resolves us from having to deal with it. If he does not agree with you, it may mean we have to deal with it. That is my only question.

Senator GIBSON—We are pleased to hear from you today. I should declare that I have been a great supporter of newspapers. Back in my past I was involved in manufacturing newsprint and it was half owned by Fairfax some years ago. Therefore, I am in a bit of a quandary now that I am a politician who I should listen to—representatives of management or your editorial staff. Let me quote you the *Financial Review* of 5 December headed 'GST has enough exemptions':

In an ideal world, the new goods and services tax—the shape of which was detailed in the hundreds of pages of legislation tabled . . . last Wednesday—would be as broadly based, and therefore simple to administer, as possible. In the real world of powerful vested interests, favoured constituencies and a difficult Senate, however, it was perhaps too much to expect good tax design principles to triumph completely over politics and pragmatism . . .

Part of the rationale of shifting to this new tax was to escape the complexities and distortions created by the Swiss cheese of exemptions that is the present wholesale sales tax regime. The more exemptions are granted in the GST, the less that rationale holds water.

Another problem with granting and extending exemptions is that it sets a political precedent, encouraging others to try their luck—the "me too" syndrome.

The *Financial Review* editorial of 4 February this year entitled 'An appetite for a GST' states:

There are already more than enough exemptions—and, therefore, costly complications—in the proposed GST tax base.

The editorial of the *Financial Review* of 8 August last year headed ‘The point of tax reform’ stated:

A GST with minimal exemptions is part of the answer . . .

On the weekend of 15 August last year the *Financial Review* headed ‘And now for the business tax’ states:

This is best done by casting the tax net as broadly as possible, thus minimising the tax bite on different types of economic and business activity. The GST does this, applying a uniform 10 per cent tax on most forms of consumption, instead of the differing rates applying to a narrow range of manufactured goods under the wholesale sales tax.

And, just for variation, the *Age*—again, part of your stable—of 15 October last, headed ‘GST: Get Serious, Treasurer’, states:

The Government should resist pressure to increase the number of exemptions unless it can also find a way of keeping the rate at 10 per cent.

And in the *Age* of 6 July last, the editorial ‘First things first: let’s talk tax’ states:

There is agreement among tax experts, business groups and the welfare sector that our tax system is inefficient, unfair and too complicated. It treats different forms of income unequally. It treats different industry sectors unequally.

Who should we listen to?

Mr O’Rourke—Perhaps it demonstrates a degree of editorial independence with the publications. And if the people who are expressing those views really want to put a submission to you and appear today in the kind of detail that we have, I am sure you will extend the invitation to them.

Senator GIBSON—Thank you.

CHAIR—That is a suggestion that we may well take up.

Senator MURRAY—Mr Chairman, a member of this committee told me that when the government was trying to reduce tariffs the business groups at large came in front of them and said, ‘Yes, we agree with reducing tariffs,’ and said, ‘Could I see you after the meeting please?’ and privately said ‘except for us’. The point has already been made that, in fact, many of the publications grouped in your submission are publicly advocating as few exceptions as possible. Has this submission been discussed with the editors of the newspapers and the media outlets you represent?

Mr O’Rourke—The answer to the question is no.

Senator MURRAY—Has the submission been sent to the editors and senior editorial representatives of the media organisations that you represent?

Mr O’Rourke—No.

Senator MURRAY—Do you intend to send it to them?

Mr O'Rourke—No.

Senator CONROY—It will be on the front page tomorrow.

Senator MURRAY—Why have you taken that decision, and why also have you taken the decision not to send it to the Treasurer?

Mr O'Rourke—We thought that we would confine our submission to this body. We understood that this was the appropriate forum in which to make submissions. I understand the point which has been made that the submission might also have been directed to the Treasurer. It might well also have been directed at many other people. I am also aware that the piece of paper that we have received back from the Senate secretariat says not to pass on the submission to other persons, that it becomes the property of the Senate, and we have respected that also.

Senator MURRAY—Does this submission have the full support of the boards of the various media organisations you represent?

Mr O'Rourke—I am not able to tell you, Senator, whether it has been discussed at board level in all of the organisations. I can certainly find that out.

Senator MURRAY—Mrs Stevens, I saw you nodding. Do you know otherwise?

Mrs Stevens—I was just going to say that the board just generally gives management support for day-to-day managerial decisions. Certainly management supports this submission at John Fairfax, but I am not aware that has been specifically discussed with our board.

Senator MURRAY—Do you mean that a matter which may result in the cover price for a newspaper rising by 8 per cent has not received the detailed attention of the boards of these companies?

Mrs Stevens—Not at this stage for John Fairfax, but certainly the board is extremely interested in GST and the impact on John Fairfax itself and will be looking into that as soon as we have more detailed figures on the actual impact on John Fairfax itself.

Senator MURRAY—Senator Gibson has read out extracts from editorials which disagree with this position implicitly, although they have not addressed this particular submission. Is it at all possible that the boards of any of the companies represented here and the editors may disagree with the submission?

Mrs Stevens—I could not speak for the board because I do not know their views or their joint view on the submission because I believe they have not seen it. I can only say what Senator Gibson read out, and that is that the editors obviously would not agree with the submission. But we have not discussed the submission with any editorial staff whatsoever, so I cannot say any more than what is generally in the papers and their general view.

Senator MURRAY—Perhaps the chairman can be of assistance to me in this, but my memory is that, for instance, on the *West Australian* board is a Mr Clough. Is that right?

CHAIR—Mr Harold Clough?

Senator MURRAY—Yes. He is a very high profile business person in Western Australia, and I think he is also a very high profile member of the Liberal Party.

CHAIR—Do you mean the Harold Clough who was formerly the president of the Western Australian branch of the Liberal Party?

Senator MURRAY—That is right. So really I am asking the question: does the board of the *West Australian* newspaper—which includes Mr Harold Clough, former president of the Western Australian Liberal Party—actually advocate that newspapers should be GST free?

Mr O'Rourke—I am unable to answer the question directly, Senator Murray, by reference to the board. Again, the answer can only be given by reference to the senior management of the company.

Senator MURRAY—You can see why the question interests me, can't you? Because the Liberal party at large have said, 'Pass the GST. We have a mandate. Make no changes. Make no exceptions,' but perhaps they are saying on the side—like in the tariff example—'except for us'. Is that an unreasonable inference for me to draw?

Mr O'Rourke—I understand the inference that is being drawn; whether that is reasonable is a matter for others, Senator.

Senator MURRAY—I wonder, through the chair, if I could ask on notice if you will—and of course it is up to you to refuse—perhaps confirm to the committee in due course that the submissions have indeed been sent to the boards and their reaction to the submission—and to the editors, if you would. They might tell us publicly what their reaction is in tomorrow's newspaper.

Senator CONROY—What would be the revenue loss?

Mr O'Rourke—The revenue at stake would be approximately \$75 million dollars.

Senator CONROY—That is a lot less than \$2 billion, which is what the government gave away the digital TV rights for, isn't it?

Mr O'Rourke—Yes, \$75 million is less than \$2 billion.

Senator CONROY—That is what I thought.

CHAIR—This is highfalutin stuff.

Senator CONROY—Yes, it is.

Senator SHERRY—I share your concern about the price impact, but you are like a lot of other groups that have come before us. We have had farm organisations, community organisations providing a significant array of services and hostels for the aged, which will be impacted. Why should we treat you any differently?

Mr O'Rourke—Because newspapers are different in the sense that to tax information, literacy or learning is, we think, a backward step for this country. We think they are different. We think that that difference has been recognised internationally by our industrial partners. It has been recognised by most of the countries which comprise the OECD. It has been recognised by all of the countries which comprise the European Community. It is no accident, as we say, that those countries zero rate or otherwise concessionally treat newspapers. There is a reason underlying it, and that is that newspapers are an important source of information. They have traditionally formed part of a free press in a liberal democratic state. And they are different to many goods; they are different to fish fingers in that respect.

Senator SHERRY—Except that some people may live on fish fingers, or they may live on a newspaper—

Mr O'Rourke—I am not denying the importance of other goods and I am not denying the meritorious nature of some other goods and services; I am simply saying that newspapers are apart from a number of other goods and services which you could identify for the reason that they are part of the fabric of a liberal democracy.

Senator SHERRY—Surely part of the fabric of a Liberal democracy is the essentials of life—such as clothing, footwear, food, rent, transport, power; all of the things that people need to live on, particularly if they are a low or middle income earner.

Mr O'Rourke—That is something again which is a matter for others to judge. I simply say that, on the basis of the same international comparisons which you will find set out in the submissions, you will see how things like medicines and so on have been treated overseas. Again, one would assume that the countries of the OECD and the countries of the European Community have a reason for so doing, but I am not here to pass judgment on it.

Senator SHERRY—I said earlier that you are part of a long list of submissions and witnesses who have appeared before us arguing that they are a special case. At the end of the day, if you do not get what you want, what is your advice to this committee in terms of accepting or rejecting the GST?

Mr O'Rourke—We have no advice on that, Senator.

Senator SHERRY—I said I shared your concern earlier, but it is a concern amongst many others which leads me to not support a GST. The *Australian*, the *Financial Review* and the *Northern Territory News* are the only newspapers that have had a circulation increase. I notice Mr Lewis is here and Mr Megalogenis has just left. I am sure they are doing their bit for the circulation boost. Congratulations. But, frankly, aren't you just being monumentally hypocritical fronting up to this committee wanting an exemption when there are, in a social justice context, just as important if not more important claims for exemption from a GST?

Mr O'Rourke—It is not hypocritical at all. That seems to suggest that our submission says that newspapers and only newspapers should be GST free. It does not say that. If the committee and the government are minded to look at the meritorious nature of other goods and services on their terms and deal with them appropriately, it is a matter for the government. We are simply confining our submission to newspapers.

Senator SHERRY—I read the newspapers in the lead-up to the last election like you did, I am sure. With due respect, you declare it is editorial independence. I think that is passing the buck very conveniently. It is monumental hypocrisy. Your proprietors and owners, by and large, support a GST. Whether they influence the editorial content or not, I do not know, but by and large the editorials supported a GST in the run up to the last election, and you front up here asking for an exemption. It is just monumental hypocrisy, isn't it?

Mr O'Rourke—The answer to that is no. It is no more hypocritical than the view taken in the other countries to which I have referred. Again, there is a reason why they have treated newspapers and indeed other goods concessionally. It is no more hypocritical to say that the governments of each of those countries are engaging in an act of hypocrisy.

Senator SHERRY—I just suggest that they are hypocrites then, too, and I leave it at that.

Senator CONROY—I want to come back to a question Senator Sherry asked a minute ago. We have to vote on this in a few weeks, so we have to make a decision about whether or not to vote for an exemption for newspapers, for instance. The question we are really asking is this: if the government rejects your call to put this into legislation, would you tell us to vote for the bill as it stands or not?

Mr O'Rourke—That is not a process or something that we are going to engage in for this reason: whilst we think newspapers are fundamentally important, and that is the reason we are here today, it has to be seen in a much broader context. You senators are involved in the much broader context than us, and it is for you to make that judgment as to what will be in and what will be out.

Senator CONROY—I can only take that as a no if you lose your argument.

Mr O'Rourke—No.

Senator CONROY—Because of the broader benefits as you define them that others would argue about, you would then be comfortable for it to go through.

Mr O'Rourke—We do not take that as a no. We take that as a not able to give an opinion that would assist this committee.

CHAIR—I may take a different view of your submission than some of my colleagues, Mr O'Rourke, and they will no doubt correct my errant ways, if I do. Really what you are saying, as I understand it, is that there is a distinction between owners and editors and may that distinction always be the case and may we have confidence that it is truly separate and

that ownership does not influence editorial opinion. On behalf of the owners, you are saying that the product your owners produce—that is, a newspaper—will be detrimentally affected if a GST is applied to it. Isn't that what you are saying?

Mr O'Rourke—That is correct, Senator.

CHAIR—Right. It will be detrimental because the price will go up.

Mr O'Rourke—The price will go up, correct. It is not detrimental simply because the price goes up; it is detrimental because, with the price going up by, for example, eight per cent relative to a CPI increase of 1.9 per cent, that is likely to have an impact on demand in an industry where demand is already sliding. So it is not just the fact of the price increase; it is what flows from the price increase relative to the prices of other goods and services.

CHAIR—The inflationary impact in the second year is 1.9 per cent.

Mr O'Rourke—It is 2.4 per cent in the first year.

CHAIR—You could argue between four per cent and five per cent, as in fact I have done in the first report of this committee looking at the macro-economic impact of the package. The argument that this is a tax on information, which is one of the strands of argument you have put, is an argument similar if not the same that has been put to us by the book publishers, for example. A tax on books is a tax on information or on art which makes the cultural life of our nation enriched. You are adopting a similar argument. Do I assume, therefore, you have sympathy for the argument that the book publishers are presenting as well? They are not newspaper publishers, but they are sort of in the same line as you.

Mr O'Rourke—We have sympathy for the argument to this extent. To the extent that it does constitute a tax on information and learning, then the underlying rationale for their case is the same as ours. So, yes, we would have sympathy with that.

CHAIR—Would you endorse them?

Mr O'Rourke—I have not seen their submission.

CHAIR—No, but just taking the principle. You are saying it is a tax on information and knowledge. You have explained it better than me in my question. You have said it is a tax on information and learning, which is what they say. There is a consistency here. Do you endorse their submission or are you asking us just to consider yours?

Mr O'Rourke—I am really asking you just to consider ours, but that is not to say that I am expressing a negative view about their submission. I have not seen their submission. To the extent that the underpinnings are the same, then clearly the conclusions might be thought to follow.

CHAIR—If I take another view of a newspaper from the perspective of owners, it is a product which carries news but the main revenue generating sources of it are advertising and the classifieds. There seems to be every now and again a battle to get their hands on who

has the biggest classified supplements of newspapers. So you can take the view that newspapers are a product in that sense. You are asking us to zero rate your product.

Mr O'Rourke—We are asking you to zero rate the cover price of a newspaper, which represents about 20 per cent of its cost. Some 80 per cent is made up from advertising revenue. To that extent, the cover price is 20 per cent of what it would be if a newspaper carried no advertising. That 80 per cent of the advertising revenue and the services of the advertisers will of course be subject to GST. We are not seeking any special treatment in that respect. What we are saying is that the cover price of a newspaper only ought to be treated as GST free.

CHAIR—If I can take the view that, at least from one perspective, the newspaper is a product and the price of that product in the hands of its consumer is the cover price. You are asking us to discount it.

Mr O'Rourke—To treat it as GST free, correct.

CHAIR—I guess the other questions relate to why just newspapers. Why do you draw the line here? Why don't you look at some other products that might be essential to community wellbeing, democratic process, transparency and an open democratic debate—things that go to national cohesiveness, lack of pressure on the social fabric and concerns about per cent and progress where low income earners may feel they are adversely affected? Why just your product? Why not look at those other fields as well?

Mr O'Rourke—We are focusing on the product which we manufacture. There are, no doubt, other products which share at least some of the features that a newspaper has. I am not sure that it is true to say that those other products have an absolutely identical role with the role that is played by a newspaper—little doubt that they share some of the features. Books will share some of the features of a newspaper. But I go back to the special role historically that newspapers have played in a liberal democratic society. It might be that books and art play a role which corresponds with that or they have some common characteristics, but I am not sure that they would share all of those characteristics.

CHAIR—But, through you, I am talking to your owners and without in any way seeking to offend them, it seems to me the reason why people invest in newspapers is not that they have some altruistic view of the liberal democratic process but that rather they are not a bad investment, they are a decent source of capital flow and they are a much sought after good. If you can own a newspaper, you have a decent capital flow and you are in a better position. So from that point of view, I do not think the prime motivation of the owners is not an altruistic view of liberal democracy, it is owning it as an investment. That is not to discount that they may have aspirations of liberal democratic thought, but it is not their prime motivation. If you are putting to us a principle and the principle is that it ought be accepted for these reasons, all I am saying is that, if we accept those reasons—we accept your principle—what other fields does that principle lead us into; and do you support us looking at those other fields?

Mr O'Rourke—The answer is that we would naturally support you looking at those fields but we are not here to express a concluded view on them.

CHAIR—But if we accept your argument, we cannot just say that that only applies to newspapers, don't we also have to say, 'Who else does this apply to?'

Mr O'Rourke—I have suggested that newspapers share common characteristics with other goods but not all of the same characteristics. There is a case for saying that newspapers are different as well as for saying that there are some features which are common to other goods. I am not sure that I can advance it more than that.

CHAIR—I am surprised that you cannot. Your argument is supported by a principle. If we accept your principle, the issue seems to me to be how do we then apply the principle, otherwise we are accused of being favourable to you and discriminatory in your favour and of not acknowledging the other cases. For example, why wouldn't the tickets to a theatre that deals with national issues—part of the liberal democratic process and adds to national debate—GST free on your submission?

Senator SHERRY—Or the footy?

Mr O'Rourke—I don't really want to get drawn into the debate about all other goods and services—

CHAIR—I know you don't but I want you to get involved, you see.

Mr O'Rourke—I will resist the temptation.

CHAIR—It is not a temptation.

Mr O'Rourke—But I would point out that those things are important to the cultural life of the community. I am not saying that is good, bad or indifferent; I am simply saying that is part of the cultural life of the community. Newspapers share some of the common characteristics with its arts features and arts reviews, but newspapers have played a special role—even over and above the arts—in the maintenance of a liberal democracy. It goes to the point that there are other goods and services which will share some of the features—but not all of the features.

CHAIR—Do you represent the publishers of the *Bulletin*?

Mr O'Rourke—The answer to that is no.

CHAIR—Would you agree that, in terms of your submission, if one is to be consistent it ought to apply to the *Bulletin*?

Mr O'Rourke—I am not so sure that it does apply to the *Bulletin*. Magazines are problematic in the sense that—

CHAIR—This is a news magazine.

Mr O'Rourke—Yes, it is a news magazine. It might well be that that shares more of the characteristics of a newspaper than, say, *Who Weekly*. But the thing with the magazines is

that, if you can focus on the specific publication, if you can say that it is in the character of news and current affairs and performs that role then, yes, you might have a case. But it is difficult if you go to a different level of generality and talk about magazines many of which are entertainment focused.

CHAIR—What about *BRW*?

Senator SHERRY—Exactly—or the *Economist*?

CHAIR—Or *Time* or *Newsweek*?

Mr O'Rourke—That is why with magazines it is very difficult that level of generality to start drawing the lines. That is not a difficulty that you face with newspapers. We have not sought to draw those lines.

CHAIR—Take *BRW* which is a weekly news magazine for the business community. I suppose if a business subscribes to it, it is an input cost to production and it can discount the GST. But, if I subscribe to it, it is not an input cost and I have to pay the 10 per cent. Would you want me not to have to pay that 10 per cent?

Mr O'Rourke—I do not have a view on that. Again, I would say that it is not the same as a newspaper.

Senator CONROY—It is a different shape and it is printed on glossy paper, right?

Mr O'Rourke—It shares some of the features of a newspaper directed at a particular target audience. But the truth is it is not a newspaper; it is a magazine of a particular kind. There might well be some reasons to look at particular magazines and to say that, because they engage in the reporting of news and current affairs and so on, perhaps they ought to be treated in the same way as newspapers. But you would not extend that to all magazines and you would have to make that on a more case-by-case basis. There is no one overriding principle that is going to get you there that draws a line down the middle of magazines.

CHAIR—About once a month when I open my *Australian Financial Review* out pops a magazine which mostly is a vehicle for colour advertising of what upwardly mobile yuppies might regard as desirable goods, but there are quite interesting feature articles which readers of the *Financial Review* would find interesting. In your submission, is that magazine to be exempted from your request or included in your request?

Mr O'Rourke—The answer is that it would be included as it forms part of the newspaper. This is an issue which, in a different context concerning sales tax, went to the Court of Appeal in New South Wales to rule on the question of what was a newspaper. There was an insert or a supplement which was put into the newspaper. The question for the court was: what is the character of a newspaper? It was thought that the magazine as such had lost its independent character and was subsumed into the entirety of the newspaper. Otherwise you get into quite difficult questions at the retail level when you have something which is given away with a newspaper as to whether you are going to apportion a cover price.

CHAIR—My newsagent sells me the *Sydney Morning Herald* on a Saturday at a lower price if it doesn't include the magazine than if it does include the magazine. You are not asking for that to be differentiated in any way?

Mr O'Rourke—If you are referring to something like the *Good Weekend* magazine that comes out, no, that is simply integral to the newspaper.

CHAIR—Although I am consciously buying the magazine and I pay the higher price.

Mr O'Rourke—Well, what is being sold to you is a newspaper. It has the character of a newspaper.

CHAIR—I will conclude with a final question because I think my colleagues are restive. It is unusual for me to hug the questioning. Increasingly, one of the biggest competitors in a liberal democratic society as a supplier of news is the Internet. We can go off and surf; we can read newspapers in London, New York and elsewhere in the world; we can go to original documents—we can do whatever we like almost. I was reading in the *Economist* last night a ranking of the world's five top web sites for economic news. We can go and visit those and we can read reports and source documents. What should happen in the case of that emerging bulwark of liberal democratic information so far as your submission is concerned?

Mr O'Rourke—The Internet is complicated to this extent: there is information and there is information. There is information of the kind that we have been discussing, which is news and current affairs. But all sorts of other things occur via the Internet including general marketing, advertising, product sales, the downloading of computer software—

CHAIR—To the extent that it competes with newspapers, let us just keep it in that box.

Mr O'Rourke—To the extent that it competes with newspapers, then it, too, should be GST free as a matter of principle.

CHAIR—But not magazines.

Senator HARRADINE—Do you feel that the effect of a GST on these regional newspapers is going to be dramatic? These newspapers do a public service in assisting in the cohesion of the rural societies with specific news and so on. Has this submission been discussed with, say, councils or other organisations in rural areas?

Mr O'Rourke—The submission has not yet been discussed with councils in rural areas.

Senator HARRADINE—But it must concern the people in rural areas if they are going to be faced with additional costs. I notice in the document you gave us that all of the rural newspapers appear to have suffered a decline.

Mr O'Rourke—That is correct. We say it is about five per cent decline over the last five years. In fact, when adjusted for population growth of about eight per cent over the same time, 33 of the 35 leading regional newspapers that you have on that list have declined in real terms. That is, their circulation has declined.

Senator HARRADINE—I know our time is running out but could I just ask this question: you have mentioned to the committee that you assessed the cost of the GST in the newspapers—is it for the whole of the newspaper industry or just you?

Mr O'Rourke—It is for the whole of the newspaper industry.

Senator HARRADINE—That is \$57 million?

Mr O'Rourke—No, \$75 million.

Senator HARRADINE—Sorry, \$75 million. In a competitive media market, which is competition between electronic and print media, what is the result—job losses?

Mr O'Rourke—That is a very difficult question to answer in specific terms. I understand the senators are now more expert at economic modelling than most of the rest of us. But, certainly, there has been a decline and we see that there will be a continuing decline. Large metropolitan dailies have a certain infrastructure so that if there is a decline it does not mean that all of a sudden you shut up shop. When it gets to the 300 newspapers that are regional and special interest or for ethnic groups, they are much smaller. The critical mass which is needed to continue such a newspaper is obviously at a different level. I cannot say at what point in the level of demand that the critical mass is such that the newspaper is forced to close its doors or it becomes uneconomic. But it is plain to see that, as a matter of logic, the trend downwards in demand inevitably has that result. I am unable to quantify for you what that might mean.

CHAIR—Any further questions?

Senator GIBSON—Can I just make a comment: I can see Mr Lewis sitting down the back. It would be interesting to see how this item is covered in the media tomorrow morning. Sorry, Mr Chairman.

CHAIR—Any other self-indulgent comments by the committee? If not, I thank Mr O'Rourke, Mrs Stevens and Mr Cassell for assisting our inquiry in the manner that you have. We will now adjourn for afternoon tea.

Proceedings suspended from 2.59 p.m. to 3.16 p.m.

FERRIS, Mr Peter James, Financial Adviser, Sisters of Charity of Australia

de HAAN, Mr Philip, Partner, Cutler Hughes and Harris

LEE, Sister Margaret, Bursar, Sisters of Charity of Australia

CHAIR—Welcome. The normal format is for you to give us a short overview of your paper and then make yourself available for questions from the committee.

Mr de Haan—I will give a broad, general overview of our submission. If there is to be a GST, we submit that it needs to recognise religious organisations such as the Sisters of Charity with the way they operate and are structured in today's environment. This is done through their health care facilities and other various facilities throughout the east coast of Australia. These facilities include not-for-profit private and public hospitals which are usually set up as corporations; trusts set up under private law and statutes; and schools which are set up often as limited companies by guarantee. And there is the congregation itself.

One of our first submissions is that there is a large degree of complexity associated with the way a modern charity runs its services in today's environment, and that the relationships between the different entities give rise to significant difficulties under the draft legislation as it currently is. Our first main point is that the activities provided within the organisation as a whole should be exempt from GST. We make this submission on the basis that there would be no loss to government revenue. Furthermore, with the idea that credits would be available anyway and with there being significant additional compliance costs associated with transactions between the congregation and its separate facilities, more funds would be available for the provision of services if those transaction costs could be significantly eliminated. So the first submission is to recognise the complexity of congregations and their facilities in today's environment in an attempt to simplify the impact of a GST so that additional resources are available for services.

Our next submission is, looking at the congregation itself and the work it does from a policy point of view, and looking at the draft legislation, all of its activities are essentially exempt from GST because it provides all the services—health, education, religious and charitable—that the government proposes to exempt from GST. When it comes to the application of that policy through the draft legislation, there are significant complexities associated with complying with the rules as they are drafted.

In our submission, we give just one example of non-deductible entertainment expenditure—and not because that is the only thing we can think of, but because that seems to be an area of particular difficulty in the GST bill itself. It is just one line of the legislation, but that line when built into the Tax Act makes 10 pages of tax legislation. Then, when you look at the tax legislation and the rulings put out by the commissioner, there are some 27 pages of rulings dealing with that one issue. Also, there is a summary of the rules that goes for about six pages which is used to work out how to apply the income tax rules. That gives just one example of where that complexity is being adopted into the proposed GST legislation.

We say that the policy seems to be that the congregation be eligible for the refunds of GST it pays. We also say that the system could be significantly simplified by having organisations, such as the congregation, either exempted from the imposition in the first place or being able to claim a full credit for the GST they pay without having to go to the nth degree with all this extreme complexity incorporated in the legislation through the adoption of some tax rules which, themselves, are fairly complex. Our submission is that, if that could be simplified, more resources would be available for the provision of services.

Related to the previous point is the fact that the input taxing of financial services will have an impact on the congregation and the services it provides. Currently, the congregation is exempt from sales tax. With the input taxing of financial institutions and the flow-on effects of finance leases, there will be additional costs imposed upon the congregation with the way it currently finances its motor vehicles. Again, our suggestion is that one way of handling this could be that the benefits of the sales tax exemption currently available to the congregation could be reflected in the GST and in relation to financial services that the congregation is required to obtain.

These are our main submissions in a nutshell. From the government's policy, in relation to the congregation, its activities and our limited resources, the idea is not to impose a GST on those activities. But, when it comes to the detailed legislation, there will be significant additional compliance costs both initial and ongoing; if there could be a way of reducing those complexities, more resources would be available for the community services that the congregation currently provides and wishes to continue to provide.

In relation to understanding the congregation and the services it currently provides, it is necessary to appreciate what some of those services are. I would ask Sister Margaret to address the senators in relation to some of the specific activities that are being provided currently. You will then get a flavour of what we are talking about. We have some supplementary materials to our submission which just outline in very summary form the activities provided by the congregation.

CHAIR—Is it your desire to have that supplementary material released?

Mr de Haan—Yes, it is.

CHAIR—There being no objection and it being agreed, it is so released.

Sister Margaret—The Sisters of Charity of Australia is a group of 240 religious women who take the customary vows of religion, poverty, chastity and obedience. We take a fourth vow of service of the poor. We have been engaged in ministry activities in this country since 1837, when we commenced visitation of women prisoners in the Parramatta gaol.

Our current operations include 18 health and aged care facilities, and five educational institutions. Some of our sisters are engaged in these works. Many other sisters are engaged in ministries that are directly connected to service of the poor. These ministries stem from the local convent and are supported financially at that level. Some ministries, however, are supported from central office. Our primary motivation is to help meet emerging needs of the poor and the disadvantaged in our society, one aspect of the healing ministry of Christ.

Our ministries include such activities as Aboriginal awareness ministry in Victoria, which is funded from central office to \$100,000 per annum. Another activity is our community care program, under which we operate: Comely Bank, a country house in Victoria used for rehabilitation of alcoholic men; children from Bosnia for holidays and nutritional build-up; women victims of domestic violence; carers of shut-ins who need relief; and poor families who cannot afford a holiday.

We also operate: a retreat centre where people from all walks of life and religious affiliations come for life direction and spiritual and physical refreshment; Briar Terrace in Fitzroy, Melbourne, which is a community centre for people in that district; a living skills centre for migrant women at Lewisham in Sydney; classes in English for migrants at Liverpool in Sydney; prison ministry, not only to gaol inmates but also extending to families from Silverwater Gaol, Long Bay Gaol and the gaols in Melbourne and Hobart; safe houses at Casula for women victims of domestic violence; a neonatal program at Liverpool, teaching motherhood and living skills; a service to country women in visitation and assistance in coping with the city when on medical visits.

We also are responsible for: accommodation for people visiting acute care patients in St Vincent's hospital, Sydney; physical massage to residents in aged care facilities; court assistance at Darlinghurst and the Downing Centre, helping families to deal with the trauma of court appearances; bereavement services associated with St Vincent's hospitals in Sydney and Melbourne; an emerging program of research into youth suicide and associated bereavement counselling; teaching at the Blind Institute in Melbourne; migrant education with the Jesuit Refugee Service; children in isolated country areas being assisted in developing relationships with city children through a scheme called Telepal; drought relief in country areas, such as financial and material assistance—for example, with the recent dramatic drought in New South Wales; respite care for elderly and shut-ins; care of children victims of separated families.

Volunteer services are quite a feature of our activities. We have many people who help our sisters in all of these ministries. There is a volunteer program at St Vincent's hospitals, Sydney, Melbourne, Toowoomba and Launceston, and the two hospices in Sydney and Melbourne. The direct cost of supporting these ministries exceeds \$1 million per annum, which does not include any value to the contribution of our volunteers.

Mr de Haan—We would now ask Mr Ferris to supplement our submissions.

Mr Ferris—I am a retired partner of Ernst and Young, accountants and business advisers, and currently I act on a part-time basis as the financial adviser to the Sisters of Charity. In that role, I am concerned that the introduction of the GST will increase this organisation's expenditure and will have an adverse effect on its financial ability to carry on its charitable works, as just described by Sister Margaret.

The Sisters of Charity will certainly need to employ additional staff or consultants to cope with the compliance requirements of the GST. Their living expenses will increase, principally food and household expenses such as rent and electricity. Their car operations costs will most likely increase. Also, on inputs for their charitable works, they will pay tax, which they will not fully recoup.

As has already been said, the congregation presently is exempt from taxes such as income tax and sales tax. The accounting records maintained by the sisters are sufficient for their needs but are relatively unsophisticated. Each convent or community, comprising on average four or five sisters living together, keep a bank account and a simple cash-book. They employ no clerical staff and, if they need bookkeeping help, they seek some friendly volunteer. They are completely unfamiliar with the lodgment of tax returns of any kind. They do not generally keep records which separate their living expenses from the costs of carrying out their charitable works.

The congregation depends on contributions from its associated health and educational facilities to fund its charitable works. Those not-for-profit health and aged care facilities will, we understand, be adversely impacted by the proposed tax reforms; if they are, this will likely have an adverse impact on the financial contributions made by those facilities to the congregation for the funding of its charitable works.

The paper which we have presented to this committee sets out our concerns in more detail, explains the complexities and anomalies and proposes some solutions on pages 6 and 7 of our submission. We would be pleased to enlarge on any of those points as required. Thank you, Senators, for your time and your consideration.

CHAIR—Thank you, Mr Ferris, and thank you all.

Senator GIBSON—Thank you, Sister Margaret, Mr de Haan and Mr Ferris. I am certain that all of us here on the committee admire your order and the works you do and would encourage and support you where we can. Returning to the basics of reforming tax, did you make a submission to the Vos committee when it was deliberating on what to do with charities?

Mr de Haan—No, we did not make a submission to the Vos committee, the main reason being the insufficient time available to us.

Senator GIBSON—Since then, have you made a submission to the government separate from your submission to us?

Mr de Haan—No.

Senator GIBSON—Could I suggest—and here I will beat the Chairman to the gun—that perhaps you should do so and send it direct to the Treasury. I do not have any further comment except to encourage you in your works. The government certainly does not want to change the tax system to disadvantage voluntary work in the whole charity field. I should declare a small interest here: I have discovered that my two granddaughters go to one of your schools, Sister.

CHAIR—Thank you for your submission which, I might say, is consistent with submissions we have received from a number of other organisations working in the same field in which you operate. I believe that the essence of your submission is that, under the proposed new legislation, you will be paying tax in areas in which you now do not qualify to pay tax and, being dependent on donations and other charitable support for your income, it

means that you will have less money available to disperse to the people you work with or to fund the services you provide. Have you been able to calculate to what extent you will be worse off?

Mr Ferris—We have not calculated that precisely because, as Mr de Haan mentioned, we are still trying to work our way around the complexity of just how it is going to work. All I know is that our total budget, total expenditure as a congregation, leaving aside our health and education services, is \$6 million a year. If all that is subject to a further 10 per cent increase, that is \$600,000, and only some of that is recoupable—and I am not exactly sure how much of that amount will be recoupable—plus the fact that we will have to meet compliance costs which may or may not be compensated for—certainly over the long term they probably will not be—it seems to us that it would be something in excess of \$100,000 per annum; it could even be something higher than that again. We do not have the precise figures, but that is some sort of ballpark feeling.

CHAIR—That puts you in an invidious position. Let me ask you though, if you were faced with that situation, how would you deal with it? What types of areas would you find that you would have to cut back on?

Sister Margaret—I think it is a bit difficult to answer that. Looking down that list, which is a fairly comprehensive analysis of the activities our sisters engage in, I would hate to think we might need to close down a place like Comely Bank in Victoria and deprive the people who use that facility of its benefit. How do we do that kind of thing? How do we shut down court assistance at Darlinghurst and the Downing Centre? What do we pull back on?

CHAIR—In conscience, of course it is an impossible call. They are essential services that you provide, I would believe. But you are faced with a budget which is decreasing, and invidious choices have to be made. I know that it is an unpalatable issue for you but, if that were to occur, you would have to confront those choices.

One of our terms of reference is the impact of this tax, particularly on low income earners and poor people in Australia. I ask: to what extent, or in what way, would you as an organisation cope with it if you were put in that situation? Can you give us some idea of what sort of decisions you would need to make?

Mr Ferris—While Sister is contemplating that, I will answer. I would have thought that we would have to make a choice about whether we continued with some of those programs or not. Some of the programs are still in the evolving stage and growing, so I think we would have to make the choice that perhaps we could not continue with the newer services, that we may just have to concentrate on the ones that are already established and that people are very dependent upon. We may just have to eliminate those that are still of great need but which we have not yet been fully established until we find another source of income through donations or some other source.

CHAIR—That is the second area of my question. What other sources are there from which you can find other income to compensate for loss in this respect?

Mr Ferris—The main sources of income for the congregation has been the contributions we have received from our health and education facilities. They, in turn—and I believe they have made separate submissions to the Vos committee—may also be under some sort of challenge and threat, so instead of us looking for some additional contribution there we may be faced with the reverse. So I would not put too much hope in that area. For the sisters who are retired and are eligible for a government pension maybe there will be some adjustment in pensions—maybe there will be some upward revision in a compensatory way for all people in the society—and perhaps there will be some extra funds there, but they really are needed to meet living costs that keep going up. The only solution is to appeal to the community for charitable donations.

CHAIR—And there is certain limit to which the community responds beyond which, no matter how well wrought the appeal, it tends to fall on deaf ears or there tends to be an inability to meet that demand. Is that a correct understanding?

Mr Ferris—Yes. We would rely on what we call divine providence and hope that there would be a will, a bequest or like that. But, really, you cannot plan for those things.

CHAIR—In short summary, though—and I do not want to put words in your mouth, so correct this if it is at all wrong, misleading or unrepresentative—am I to understand what you are saying that you do face a genuine shortfall, that the sources of funding from which you can correct that are limited and probably not realistic?

Mr Ferris—Yes, I agree with all you have said.

CHAIR—And that you are faced inevitably at the end of the day with having to cut back on services in some form if the situation remains as it is now?

Sister Margaret—Absolutely, no question.

CHAIR—Is that a fair description?

Sister Margaret—Yes.

CHAIR—Would it be right to describe your organisation as one that works at the coalface—that is, it deals with people in real need and has a direct experience of what that is like, how extensive the problems are, how intractable they are and the types or human and emotional wreckage that gets up in a society like Australia? I am not asking you to do so, but would you, if asked, be able to describe that in great detail?

Sister Margaret—Yes.

CHAIR—Is that your area of experience?

Sister Margaret—Yes.

CHAIR—Have the seen the submission of ACOSS to our committee at all?

Mr Ferris—No, we have not.

CHAIR—It is probably unfair of me to put these questions, but let me put them and if you think it is unfair you rule me out. ACOSS, in essence, is saying that they support the government's package on a GST, but then they say there is a number of considerations they have about it—that food should come out, and I think there are a couple of other tinkering points that they have about it. Does that represent your view? Do you support this package and would your problems be resolved if food was taken out and some other minor amendments were made?

Sister Margaret—I doubt that would solve our problems, but I agree with the Bishop's statement that was published last August, I think, that the common good, social justice and service of the poor are the three overriding imperatives that need to be honoured in any legislation. So if the common good looks at freeing a taxation on basic needs and services, yes.

CHAIR—I think we could agree that food is a basic need.

Sister Margaret—Yes.

CHAIR—Would you care to set out for us, given your experience in dealing with people in poverty, what other essential needs there might be that concern them in their straitened circumstances?

Sister Margaret—Legal service is one. We offer a legal service out of our outreach activities at St Vincents. For them to access proper legal representation at court is absolutely imperative, otherwise they are left with nothing to depend on.

CHAIR—What about shelter, clothing, transport, heating in winter and maybe airconditioning in summer? From your experience, are they important matters for people living in poverty, and if there were extra costs they would find it difficult to them?

Sister Margaret—I suppose we look at people like the Smith Family and St Vincent de Paul, who in winter are pleading for the community to offer blankets, food and clothing. St Vincent de Paul would meet financial commitments for rent and heating. We would help in such ways as we could with the people we minister to out of the houses at Liverpool, for example. I would predict there would be genuine hardship experienced by the poor were they to be taxed on those items.

Mr Ferris—I would agree with the Sister, and there is a question of whether or not some sort of compensation would make up for the extra costs they would be facing. I think the concern is whether a system of compensation can be designed that will adequately meet that particular segment of society that does not pay income tax generally and may not be compensated sufficiently by any existing processes that so far we have read about.

CHAIR—I must say I do not have the same experience as you do, Sister, but my understanding is that a feature of people living in poverty is that they do not have much

discretion about their household budget. Every cent is accounted for and many, in fact, live by drawing on reserves, if they have any, or friends or charitable organisations. Is that true?

Sister Margaret—That is true. At the Living Skill Centre at Lewisham and at another place we have in Fitzroy in Melbourne—and we also do similar activities at the house at Liverpool—we encourage women to present their budgets and we help them anticipate their expenditure and come back to us with reformulations of that, so they can actually manage their money adequately. That is part of our activity.

CHAIR—But is it a feature that they do not have much discretion?

Sister Margaret—They are not educated to that. They spend what they have heedlessly until someone comes in and encourages or educates them to use their money more wisely.

CHAIR—Correct this statement if you do not agree with it: if I were living in poverty and I had been through one of your education courses to learn to use my money wisely, I would still be in a situation where I do not have much discretion at all. One of the definitions of poverty or low income is not having very much money to make choices in terms of meeting the necessities of life.

Sister Margaret—I could only agree with that in that they do not have the discretion, but the challenge to us is to keep contact with those people on a visitation basis. What a lot of our retired sisters would do is actually visit those people in the district to keep up that impetus.

CHAIR—The point I am coming to is your evidence is similar to the evidence of St Vincent de Paul and other groups who deal with people on welfare or people in poverty. You are saying to us that your ability to render service would be reduced by virtue of these tax charges. How will people living in poverty then cope with a reduction in services from the welfare providers like yourselves? What options do they have?

Sister Margaret—I do not think they have any.

CHAIR—Is it then reasonable to say if they have none that by imposing those extra responsibilities on them we are making life for people who are living in untenable circumstances even more untenable?

Sister Margaret—I would anticipate so.

Mr Ferris—Yes.

CHAIR—Okay. Are there any further questions?

Senator MURRAY—Mr Ferris, in terms of current tax law, are you classified as a PBI, a public benevolent institution?

Mr Ferris—No, we are not. Some of our affiliated groups are such as hospitals and so on, but the congregation is not a PBI.

Senator MURRAY—Separate it out for me if you would. For those who are registered as a PBI and those who are not, what present record keeping and qualifications, if you like, do you have to put forward to get tax exempt status? What do you have to produce at the moment to get tax advantages out of the system?

Mr Ferris—I will ask Mr de Haan, our adviser, to answer that.

Mr de Haan—The process at the moment in relation to the congregation and the separate facilities—that is, whether they are just tax exempt or public benevolent institutions—is to first of all write to the Taxation Office outlining the proposed activities that are going to be conducted and the structure in which they are going to be conducted. So it might be a company limited by guarantee or it might be a trust. The Taxation Office reviews the structure and the proposed activities and gives a ruling. That ruling itself has a number on it and you put that number on receipts if you have public benevolent institution status so people have tax deductions for their gifts. It also has a number for sales tax. When you acquire goods that would otherwise be subject to sales tax, you can quote the number. The Taxation Office has a letter to support that. That is essentially the end of the process.

There may be a requirement to go back to the Taxation Office if there is a change to the structure of the entity or a change in the activities, but if there are no changes it is a one-off process of getting the approval from the Taxation Office and then conducting the activities which are significantly different from the proposed GST regime—that is, claiming a refund of GST for entities such as the congregation every month and putting in place systems to track the credits and be able to work out what is creditable and what is not. It is a significantly different system being proposed.

Senator MURRAY—Because put before us in the presentation of Mr Ferris in particular was the whole bogie of record keeping and what the sisters are available to do. I want to preface my next remarks with a statement, and I mean it very much as a compliment, Sister Lee. My opinion is that organisations and persons such as yourselves put business people to shame. You do so because you are far more cost efficient. You do a great deal with very much less. You are probably far tougher because your life experiences are right down at the bottom end of the social scale, if you like. You experience things that most of us hope we never do. You are also very practical people because you have to deal with practical issues of administration and management in very difficult circumstances continually. Therefore, it is my belief that any attempt to paint the sisters as helpless or inadequate or incompetent would be entirely wrong. I know that was not your intention, Mr Ferris.

The proposition I put to you is this, Sister Margaret. Given that you are as a group very practical, very experienced, very capable people, I assume the reason you do not indulge in a great deal of record keeping and that sort of thing presently is simply because you have no need to and you divert your energies to where they are best needed. Would that be correct?

Mr Ferris—That would be substantially correct, yes.

Sister Margaret—It is reasonably correct, but I may comment that as congregational bursar I require that each of our convents submits an analysis of their income and expenditure together with a bank reconciliations statement each financial year. Were you to

search through some of those it would not take you long to come to the conclusion that some of the sisters are clueless in regard to drawing up a bank reconciliation. Be that as it may, were we forced into a system whereby we had to keep records and were subject to public scrutiny, we would certainly go ahead and do that. But I cannot speak for the efficiency of the system that we would produce.

Senator MURRAY—Sister, I put the proposition to you that if you took the most efficient business in this country and took a cross-section of some of their people, you would find that some of them are clueless when it comes to bank reconciliations as well. I say that as a person with a great deal of business experience. What I am driving at is this. If the new tax system results in a greater imposition of record keeping on yourselves, I presume that the only way you would like to deal with that would be if you were compensated for that extra cost. If you have to divert energy and effort into record keeping and management issues, which currently you don't have to, it takes you away from being able to provide services and focus on your main mission. Is that correct?

Sister Margaret—That is exactly correct. With the number of sisters diminishing, the opportunity that we have for paperwork is less and less. Were we to enter upon this record keeping for GST, we would have to employ staff to do that. That is a given.

Senator MURRAY—So is the nub of your submission that if the government are determined not to change their existing system they should therefore look at some way of compensating you for the additional cost of providing an essential service to the community? That is the proposition being put by small business and by all sorts of others who have to incur compliance costs and new systems. Is that a reasonable summary, or are am I misinterpreting it?

Mr de Haan—There are two points. One is compensation for additional costs and the second one is we will try and simplify the system as proposed, to cut down on the difficulties associated with complying, such as transactions between associated entities or trying to go to the nth degree to work out whether a particular GST being paid is creditable or not. The complexity and the detail are a significant element in increasing the compliance costs which could be resolved by grants to assist in that compliance or to reduce the complexity associated with it in the first place.

Mr Ferris—If the compliance costs could be adequately compensated for into the future and not just in a one-off implementation sense, that would certainly meet some of our concerns. But as I was putting forward a case to you earlier, our total expenditure—not just in the extra cost of compliance—including payment of the GST without it being fully recouped would mean that we would have less resources available to us.

Senator MURRAY—Yes, I understood that point.

Mr Ferris—So it is not just the compliance cost; it is compensation also.

Senator MURRAY—Yes. I didn't want to pursue that because Senator Cook had explored that fully. Tell me about your practical administrative framework. I presume that in your hospitals you are computerised and you have modern accounting systems and so on.

Mr Ferris—In our hospitals we do, but perhaps we should get clear this distinction—Sister Margaret is bursar of the congregation and what we are presenting to you as the core of the congregation is distinct from our hospitals and our aged care facilities, which have been separately incorporated and run like large businesses. Yes, those large businesses are very well computerised and very well managed. It is the other range of activities that Sister read to you at the beginning of her presentation which are done by us in our small communities, our convents of four or five sisters. They go out into the community doing that other work, not caring for the sick in the hospitals or caring for the aged people in aged care. It is all those other community activities where we see ourselves as being adversely impacted by this proposal.

Senator MURRAY—Within the presentation you have made to us on the range of activities you indulge in, you have a similar difficulty to that of small business versus large business. Large business have systems and all the accounting ability; small business have to start from scratch often. That is correct?

Mr Ferris—Yes.

Senator MURRAY—The government has offered, as you know, compensation for start up costs with the GST system to small business.

Mr Ferris—But start up costs are only one part of it. We see ourselves having to engage permanently extra clerical staff to handle this compliance that we do not need at the moment.

Senator MURRAY—But would there be the need for a major introduction of, say, computers and accounting systems?

Mr Ferris—There would be.

Senator MURRAY—In that sense, the initial impact is very hard?

Mr Ferris—I have not separately costed that, but we have almost assumed there would be adequate compensation for that start up.

Senator CONROY—That is a brave assumption.

Senator MURRAY—If the government has put the principle of compensating the poorest of the business sector in this sense—in terms of compliance costs and start up costs with the new tax system—do you believe the same principle should apply in your sector, not for the hospitals and so on that are well established but for those operations which are poorly equipped at present?

Mr Ferris—We would hope so, yes.

Senator MURRAY—Do you have any feeling as to what that might cost?

Mr Ferris—We have had to look at some of the extra computerisation or facilities to provide for that. Those set up costs would include centralising the records, which is something we would have to consider. At the moment, they are not. We would have to put in additional software. We would need more equipment and telecommunications equipment. So I would think at a minimum that is \$50,000 to \$75,000 just for equipment.

Senator MURRAY—I think the question I am going to put to you would be unfair because I am not sure you are able to answer it, but I will put it to you in case you have had talks and are able to answer it. The compensation being offered to small business by government is half a billion dollars.

Mr Ferris—In total, for the whole of Australia.

Senator MURRAY—Would a similar figure be necessary for your sector? Is it a lot less or a lot more? Do you have a feeling for that?

Mr Ferris—I do not know.

Sister Margaret—I think it is too difficult to answer. There would be some 100 religious congregations in the same position as the Sisters of Charity doing similar work, maybe not to such a large degree. They are small groups that work out of their convents and their communities in their local districts meeting the needs of the poor and the disadvantaged. While we speak for our own congregation, we also plead for some consideration of those groups as well.

Senator MURRAY—But it extends beyond the religious groups, doesn't it?

Sister Margaret—Yes, it does.

Senator MURRAY—To all the social and charitable organisations that do this kind of work.

Sister Margaret—Yes, exactly.

Senator MURRAY—That is all I have.

Senator CONROY—I have a couple of questions. In the last few years, Sister, has your organisation had an increase in demands for its services?

Sister Margaret—Yes, I could point to a number of services that have been developed within the last six to eight years. The second one cited, the Comely Bank development, which is an old community house at Healesville in the hills in Victoria, has been used very significantly more recently, particularly in the rehabilitation of alcoholic men. We have another house in Fitzroy in Melbourne for the same purpose.

The outreach centre that we operate from St Vincent's, Sydney, has considerable demands in its Liverpool area for women victims of domestic violence. At the inception of that outreach centre, we made a commitment to look at women's health, particularly

disadvantaged women. So victims of domestic violence have become a real target in that Liverpool area, and we are extending that as soon as we have the funds to do so.

We would like to extend nutritional care for children from Third World countries who have been brought to Australia by a volunteer group in Melbourne. That group does not actually work with us. They are an independent group. We provide this Comely Bank area for them to reside for six weeks. We offer nursing expertise and nutritional dietary build-up.

Another emerging ministry is research into youth suicide and the bereavement counselling that is associated with that. If we were to look at our activities 10 to 15 years ago, we would not see anywhere near the variety that this program tries to reach just because there is an escalation of need in those areas.

Senator CONROY—Sure. You have been involved in this game a long time—in terms of compensation, which is an active question the committee has been debating, would you have confidence that a compensation package could not slip away over time?

Mr Ferris—Equally, I have been seeing those sorts of things in my professional life. I would be very surprised if a compensation package could be set up that would not slip away in some form or other. Yes, I would be very concerned about that.

Senator CONROY—Thanks.

Senator HARRADINE—If I can just follow that question up: have you given any thought as to how best the compensatory package, how rearranged, could be set in concrete?

Sister Margaret—We have not but we could.

Mr Ferris—I don't think we have an adequate answer to that. We certainly see the need to do it but I don't think we can give you an answer now.

Mr de Haan—It seems very difficult to make it set in stone.

Senator HARRADINE—Mr Ferris, you were saying that, from your vast experience, you think that would be a very difficult task?

Mr Ferris—It would be a difficult task. One thing that concerns me is if we are only talking about compliance compensation, which was mentioned by Senator Murray, and one-off or start-up compensation. That is fine as far as it goes. But how do we deal with the ongoing additional costs? It seems to me that you would have to have something in the regulations or the law that says that this is a continuing subsidisation, otherwise it is no compensation at all. It is just a start-up compensation. That is one area that occurs to me, and that is simply on meeting the extra costs of compliance. But in terms of the kind of compensation that might be needed for the poor and for the services that we are offering to the poor if we lose resources from the introduction of GST, there has to be some mechanism found. I am not competent to answer that today.

Senator HARRADINE—Thank you.

Senator CONROY—Wouldn't it be better not to need compensation?

Mr Ferris—It comes back to Sister's comments about what the common good needs here. I don't think any of us at this table disagree with the view that tax reform is needed, it is just the methods and how you apply that, how you determine that.

CHAIR—Thank you, Sister Margaret Lee, Mr Peter Ferris, and Mr Philip de Haan. I welcome the next witnesses from the Combined Pensioners and Superannuants Association of New South Wales and the Australian Pensioners and Superannuants Federation.

[4.07 p.m.]

McGUIRE, Mrs Norah, National Treasurer, Australian Pensioners and Superannuants Federation

THOMAS, Mr Gerard, former Policy Officer, Australian Pensioners and Superannuants Federation

WHILEY, Mr William Morton, Assistant Secretary, Combined Pensioners and Superannuants Association of New South Wales

CHAIR—The normal process is that we invite you to address us briefly on your submission and then be available to take questions. For the *Hansard* record, can I say that Senator Steve Conroy will step down for this session and Senator George Campbell will step up on the Labor side. Thank you, please proceed.

Mrs McGuire—As part of the Australian Pensioners and Superannuants Federation, we have affiliates in all states and territories. The need for tax reform is readily agreed by all of our affiliates. The problem is with the GST. After wide consultation, we find that all of our affiliates are saying it is not the way to go.

There are several problems with a GST—it is not just about food, which I notice a lot of the talk has been focused on; it is about the impact of people on low incomes on all of their necessities of life. The more that older people talk about this, the more they become convinced that a GST is going to be a disaster for them. Some of the issues that I will just touch on now include the fact that most older people have paid tax all their life and many of them do not have to pay tax any more. But this will impose a tax on them once again.

Quite often older people will not be able to sustain their quality of life. If you are on a low fixed income, your budget is very inflexible and it is very hard to make it stretch. What happens is that pensioners and other low income people quite often do without. One of the things which would happen with a GST is that they would do without food. That happens quite often already. That is being seen as the way that they will have to live. Older people are telling us that they are going to have to start deciding what they do not buy.

There are other issues, such as the compensation and whether that is adequate. The majority of the people we talk to say that it is not adequate. The fact that as the years go by they see a need for more compensation, and not just for that one-off four per cent increase in the pension, is also a worry. How do we keep on buying the things we need?

The lock-in measures for the GST rate of 10 per cent are inadequate. We all know that there is at the moment no way being put forward that means that that could not be changed, and that is another big issue. The mechanisms for price monitoring have to be very, very strong. Already we are hearing from people that prices are going up and, as one man put to me, probably the retailers are putting them up now so that when they get rid of the wholesale sales tax they will still be making more money on it. I am a cynic, and I believe that is probably the case in some areas.

There will be an impact on organisations such as ours and on our membership. We talked before about the compliance compensation. Our organisation is no longer funded. Our income is well and truly below \$100,000 a year, so we do not have to register. But if we do not register, how do we claim input GST, because we will be paying it?

Memberships will attract a GST. That is another problem. We heard at a previous hearing that memberships of one of the groups which was there at the hearing would not attract a GST or, if they did, they could claim the money back through the inputs. Since then we have heard that that is not true anyway. But how do our members claim back GST that they pay on membership of organisations like ours—organisations of very low income older people who do not pay large memberships? But, still, it makes a difference. How does an organisation like ours continue to do the work we do if some of the money that we have now and that we attract we have to spend on a tax? And, also, of course, once a GST is put into place you have to spend more money on complying with the law. How do we keep doing that?

So there are a lot of issues here that are not, as I said, just about food. But, of course, when you are on a low fixed income food is your major expenditure, so for older people that is quite often the number one issue. But it is about the things that they want, need and do with the rest of their lives.

CHAIR—Thank you, Mrs McGuire, is it your intention to invite Mr Whiley or Mr Thomas to supplement your remarks, or should we go straight to questions?

Mrs McGuire—If they want to supplement them it is fine. Do you want to?

Mr Whiley—To be very brief, we do not want the GST in any shape or form. A lot has been said on food, and that has been well bandied around. Probably that is one of the biggest single items that would hit us hard. But pensioners in the lower income groups will be really savaged by the GST in every aspect of their life, no matter what they do—if they have pets, if they look after their grandkids, if they buy pharmaceuticals, and so on. They will be affected in all of those aspects, in every aspect of their lives. We do care about our grandkids and the standards and how this will savage them. And we do not want the compensation because if you project your thoughts into the future cash will soon be eroded and we will be saddled with the GST. It is hard enough to exist on the pension as is without putting an added tax to it.

In the last sitting I went through the life of a pensioner for one day. I don't intend to do that again. But let me say that if you do tax every aspect of our life, we are going to get savaged. We don't like that. Let us come back to dwell on the compensation package. If you think that cash can compensate you for everything, I don't believe it can. As I said, in the future it will be eroded and we will be a lot worse off. We will be paying tax on those very necessities that were not taxed before. Why are you shifting the tax burden down below? So please, senators, look at those aspects when you are doing whatever you have to do in this inquiry because it is going to savage us quite a bit.

Senator SHERRY—In your recommendation one you say that the government introduced legislation to quarantine the four per cent GST linked pension increase from the

25 per cent pension in the male total average weekly earnings benchmark. Can you explain in a little more detail? I was just reading through your submission. The points you were making there were not entirely clear to me.

Mr Thomas—APCF does admit this is a bit of a difficult one to get our heads across, as well. We have tried to talk about it with a range of government advisers to see whether this is a real problem. We haven't been given any confident assurances that our concerns on this issue were addressed. So here it goes. Basically when the government GST pension increase comes in, the four per cent, the pension will already be at the government's benchmark of 25 per cent. When the four per cent pension increase comes in it will lift the 25 per cent, say, to 27 per cent.

Twice a year, as we are very well aware, pensions are indexed to both CPI and MTAW. For a period of time after the GST comes in we expect that average earnings are going to be increasing faster than the CPI. So pensioners at that time would expect to receive an MTAW pension linked increase. However, that will not occur because they will already have a GST linked pension increase. So in a sense that pension increase risks being eroded. Basically, in the future for a period of time—and we cannot foretell the figures on this—after the GST comes in pensioners are going to be robbed of MTAW increases. That is a severe reduction in the commitment that the government gave us to maintain that 25 per cent benchmark.

Senator SHERRY—So you have the four per cent. Prices may rise by a higher figure than the government says in ANTS. That would be our argument. But let us assume you got the four per cent above male total average weekly earnings, which is where it is approximately at present. Male total average weekly earnings will rise faster than prices in most years. There may be some occasions when it does not. So you will get a convergence at some point in future. You will be starting off four per cent above the 25 per cent of male total average weekly earnings. But gradually, as the pension increases to 25 per cent of male total average weekly earnings eventually at some point in future you will have effectively eroded away that four per cent differential?

Mr Thomas—That's right. We agree.

Mrs McGuire—But the problem is that before that happens we will have to forego pension increases we would have got normally.

Mr Thomas—The pension increase occurring from 20 March, within the next two weeks, is related to the CPI and has an MTAW component, although the information from Senator Newman's office doesn't indicate which. But we would suggest, for example, that if this was happening two years down the track, the MTAW component and that security and that assurance that pensioners' living standards will increase with community living standards won't occur. We would love this not to be the case and love to be told that we are incorrect on this, but that is the way we see it.

Senator SHERRY—The government has legislated now for 25 per cent of male total average weekly earnings for the pension. Effectively what you are saying is that you want 29 per cent of male total average weekly earnings locked in law.

Mr Thomas—Again, that is why the recommendation is to work out a formula. Pensioners would love 29 per cent of MTAWE, but we would need to look at that. We think that this will probably only be a problem for a two-year period, but that is two years long enough. Locking it in at 29 per cent would certainly be a positive for pensioners, and we would obviously like that as a pensioner organisation, but government may think that that is a very expensive option. Is the aim of the tax reform to increase pensions to 29 per cent or is it a range of other issues? We are uncertain about the recommendation. That is why we think it needs some serious examination of the issue. We think somehow it needs to be quarantined at least for a certain number of years so the compensation is not artificially eroded.

Senator SHERRY—Let us say that, in five- or 10-years time, whatever the inflation rate or whatever the final compensation for pensioners, your concern is that eventually it will get back to 25 per cent of male total average weekly earnings at some point in time in future.

Mr Thomas—That is right.

Senator SHERRY—If that happened, you would regard yourselves as having been short-changed and effectively phased down and out of compensation at some future date.

Mr Thomas—That is right, yes.

Senator SHERRY—There is one other area that we have had a lot of letters about which not too many organisations mention—that is, the position of people who are coming up to pension age, depending on whether they are males or females, because there is a different age for pensions. There are those people who turn 55 who have often, I have to say, been forced out of work. They have retired, but they are retired not necessarily through choice but because there are simply no options or very limited options for re-employment. There is also a deeming provision in terms of your superannuation draw down before you collect social security once you turn 55, and I assume you are aware of that. So I think you raise a group who are not compensated. If you get to 65 if you are a male or 60 if you are a female, you get this bonus, but this group of people miss out on it. How would you do that? Would you lock that into legislation in the same way as you have mentioned in recommendation No. 1?

Mrs McGuire—I think that probably that is what we would have to look at. These people are going to be quite severely impacted by a GST. In effect, their incomes are quite often the same as pensioners, or maybe a little more, and yet they are not getting any compensation at all. Therefore, we believe that there is a need to look at people who are compulsorily retired and cannot access the compensation. They are older people even if they are below 60 or 65.

Mr Thomas—Some may benefit, perhaps in a very minor way from tax cuts, so there may be a small element of compensation there, but it certainly does not do anything for the wholesale evaluation of their savings for people at that point in their lives. We are talking about perhaps making people up to 40 work for the dole. We are already worried about people over 45. I suppose the working life is shrinking before our eyes basically. The government policy to assess these people's superannuation effectively sees these people as

retired, so we think it is quite curious that they are not eligible for any similar compensation. They have been paying taxes all their lives. It is just that the government is changing the ground rules on them.

Senator SHERRY—In one sense, though, aren't they worse off than people who are currently on a pension who might have a small amount of superannuation, because they are dissavers and they are required to effectively draw down on part of their savings before they get to pension age? I would have thought that their situation is in fact worse than the current aged pensioners.

Mr Thomas—I suppose it is really a double whammy for these people. That is why APSF has tried for a number of years to highlight with all governments the concerns for the older unemployed. I think it would be very unfair not to increase the compensation for that group of people. We cannot understand why they were ignored in the first place from that point of view. We have seen obvious need amongst that group.

Senator GEORGE CAMPBELL—You talked earlier about the compensation package being inadequate in terms of dealing with the position of pensioners. Have you done an analysis of what the actual impact of the GST will be on both a single person and a couple on the old age pension?

Mrs McGuire—We have not done that. One main reason is because we are no longer funded. We have no staff and no money to do that kind of modelling. So the direct answer is no, we have not.

Senator GEORGE CAMPBELL—Why was your funding withdrawn?

Mrs McGuire—The Australian Pensioners and Superannuants Federation was defunded by the federal government and the explanation given was not accepted by us or by any other organisation that knows us. We firmly believe that we were defunded because we spoke out very strongly against the new aged care legislation.

Senator GEORGE CAMPBELL—I see. And what was the explanation that was given?

Mrs McGuire—That there were other organisations who needed funding, that money had to be saved from somewhere and that there were already two organisations who represented older people and who were funded by the federal government. I will say that one of them is a provider organisation and does not represent older people at all and the other one is not a total consumer organisation, which APSF is.

Senator GEORGE CAMPBELL—What was the level of your funding per year?

Mrs McGuire—Just under \$300,000 in the last year we were funded.

Senator GEORGE CAMPBELL—And have you tried to raise alternative funding to carry out the work that you carried out previously?

Mrs McGuire—We have. We managed to keep some of our staff on board until last December, by various means. But the problem was that our staff had to actually find ways of raising money to keep them going with us. It became too onerous, too much to expect staff to do. Unfortunately, the money was going down. We spent all our reserves. We now have a very small office with just volunteers doing the work.

Senator GEORGE CAMPBELL—You say you are not able to carry out the sort of analysis that I asked for?

Mrs McGuire—Most definitely not.

Mr Thomas—I would say that the government's own figures show that in the first year the CPI is going to be 3.1 per cent, so that is a sure bet. You have got to understand also that the compensation offered is based on averages and we made the point to a previous inquiry that older people do not eat averages, they eat food and they need services—that is the important thing in their lives. So, by any stretch of the imagination, we think many people would be undercompensated by a package. It is the same with the CPI—some people are undercompensated, some people are overcompensated. Our concern is that there will be a large level of undercompensation with the current package—particularly as some aspects of the price increases are very much unknown to older people, such as the impact on over-the-counter pharmaceuticals and things like that. Our concern is that they are going to face a big escalation of those sorts of costs once a GST comes in, purely related to the fact that, as things are moved off the Pharmaceutical Benefits Scheme, they not only go up in price but they will, in future, also attract a GST. Those sort of policies can help to undermine the very positive move of the government to extend the Commonwealth seniors health care card, for example. We have a range of concerns; some—with relation to boarding houses, hostels and caravan parks—have been addressed, as were nursing home issues. So we are hopeful that at least some of these other aspects are going to be listened to but, I suppose, the main concern of the organisation is that compensation will not remain.

Senator GEORGE CAMPBELL—The reason I asked the question, Mr Thomas, was to try and get a feel for what the impact was on real people rather than averages. Are you familiar with the submissions that have been made to the inquiry by ACOSS?

Mr Thomas—Yes.

Senator GEORGE CAMPBELL—Do you support the position that they have put before the inquiry?

Mr Thomas—ACOSS have made a number of positions; which actual position are you talking about? As an organisation, APSF was involved with the business and ACCI discussion a couple of years ago. Maybe, for the record, we should say that prior to the election we found businesses much more concerned about the impact of a GST on low income and disadvantaged Australians than we have seen since then. We think that is unfortunate from our point of view.

APSFs and their affiliate organisations have been very clear on this for a number of years. While they have supported moves for tax reform, they are not really sure that you can

get what you would call a kinder, gentler GST; they are not sure if you can actually do it. They recognise that if it came down to it, you would not want to apply the GST on food because it makes up the vast bulk of pensioners' incomes.

Mrs McGuire—But the basic premise is that there should be no GST at all. We know that ACOSS is now looking at food not attracting a GST but our membership still believe that the GST should not be the major platform for tax reform. There are other ways to increase tax revenue and we believe the government should be doing that.

Senator O'CHEE—One of the concerns you had is the price impact on low income pensioners. By definition, most pensioners are low income. Is that correct?

Mrs McGuire—Low income older people, yes—because there are people who are not pensioners who are on low fixed incomes too.

Senator O'CHEE—And your concern is that the increase in the benefits that apply, for example, to pensioners is insufficient? Is that your concern?

Mrs McGuire—Yes. We do not believe that the compensation, as Mr Thomas just said, can be worked out for an average pensioner—because we are not average, we are all individuals.

Senator O'CHEE—But when you actually ask to set the pension rate you use the average expenditure of pensioners as a reference, don't you? You do actually use averages to say, 'This is the argument for 25 per cent of—'

Mrs McGuire—Actually, we argue for 35 per cent of male total average weekly earnings. That is our policy, that is the policy set by our membership.

Senator O'CHEE—But you use averages to argue that case though, don't you? I think Mr Thomas is acknowledging that.

Mrs McGuire—I doubt if we have ever used averages. Once again, because we are consumer organisations, we do not have the mechanisms to work out an average and we do not believe that there is an average person. What we are saying is that our membership says a certain amount of male total average weekly earnings would give them a reasonable quality of life, and that is the basis on which we work, by listening to our membership.

Senator O'CHEE—But even then, you are using an average of total weekly male earnings.

Mrs McGuire—I used total male weekly earnings, of course, because that is what they call it, not because that is what we want to call it.

Senator O'CHEE—But if we were to look at the situation facing pensioners and we found that the compensation was more than the average price impact on a given group of pensioners—if we could do some modelling and look at that so that the compensation was

more than the impact on the average—then you would have to accept that most of the pensioners within that group would certainly not be worse off, would they?

Mrs McGuire—No, but there would be people that came below the average and above the average—so it is very hard to work out through averages. I will give you an example. There are people who actually need medications. We know that for the PBS medications it is only \$3.20 for each prescription; however, there are others who need things that are not on the PBS.

When minor analgesics were taken off the PBS, some of them rose in price by 100 per cent, and there are people who need to take them. There are people who need things like anti-fungal creams. They have all risen. Not everybody has to use those things, so how do you work out what an average is? For example, how do you work out an average between me and Bill Whiley? I will use Bill as an example, because he is not a health freak but he looks after his health well. He does not take many medications. I need medications to keep me going. So we are totally different. We are different with our needs and our wants. I am still to see what an average pensioner looks like.

Senator O'CHEE—That is why we have the ABS, and they try to look at what the expenditure patterns of people are. You would be aware that last year Treasury released some modelling, and I will ask one of the attendants to pass you a copy of that.

Mrs McGuire—I am sorry. I do not see very well, as well as not hearing very well.

Senator O'CHEE—You cannot see it from here, that is for sure.

Senator SHERRY—But you argue very well.

Mrs McGuire—I love a good argument.

Mr Thomas—From my understanding of that, also acknowledged in some of the detailed figures of the package is that many retirees are going to be at risk of being under compensated. That is even from Phil Gallagher from the Treasury. His words, amongst his package documents as well, acknowledged the very fact that, for pensioners and low income self-funded retirees, there was a great risk of under compensation.

Senator O'CHEE—With respect, I do not think that is the case, but why don't we turn to page 6 of that Treasury release. You will see there are some tables that relate to pensioner couples.

Mrs McGuire—I am sorry, Senator. I will have to get Gerard to do that. I cannot read that.

Senator O'CHEE—Certainly. Mr Thomas, on page 6, you will see that that is not the conclusion they reached. They looked at pensioner couples, for example, which is the top table there and found that, for the bottom 20 per cent—that is people who are earning less than \$324 a week—the cost of living, using the HES data set constructed especially for those people, increases 2.3 per cent. For the next quintile—that is, people earning \$324 a week to

\$548 a week—the cost of living increases 2.5 per cent. For the final quintile—which is applicable to pensioner couples earning between \$548 and \$841 a week—the cost of living increases 2.3 per cent again. That is not consistent with a suggestion that they are under compensated. In fact, it suggests that, for an average group of people in those expenditure patterns and incomes, the cost of living increases less than four per cent.

Mr Thomas—I must say that I am not familiar with the basis of those figures. Is this from the government's tax package? Does this use an all average CPI? If you have thrown that question at me and want me to interpret an answer now, I cannot do that at this moment, but certainly I could get back to you.

The Melbourne Institute data had figures much greater for retirees than these figures here. The figures of Neil Warren say something different. Even the government's own figures recognise that you need a buffer there, so people are at great risk. I suppose it is a risk that we are not willing to take because our concern is that, if the compensation comes in, we do not, unfortunately, through hard experience believe in the benevolence of governments to maintain these sorts of things—

Senator O'CHEE—Mr Thomas, I do not want to interrupt, but even the Melbourne Institute work that was done suggested that, under the most dismal of four possible scenarios, the worst cost of living increase was 3.6 per cent. That was for single unemployed people. For pensioners, be they couples or singles, it was 3.3 per cent.

Mr Thomas—There is very little room for error and I suppose that is our point. There is very little room for error in any of these figures.

Senator O'CHEE—But you have to accept—

Senator GEORGE CAMPBELL—Let him answer your question! You have asked him three questions and haven't got an answer to one of them!

Senator O'CHEE—George, just take a valium, please.

Senator GEORGE CAMPBELL—You are the one who needs a valium! You have not let anybody answer a question all day!

Senator O'CHEE—I am not screaming at anybody, Senator Campbell.

Senator GEORGE CAMPBELL—You have asked him three questions, and you have not let him answer one of them.

CHAIR—Order!

Senator O'CHEE—Mr Thomas, I do apologise for the interruption. Keep going.

Mr Thomas—I have just lost my train of thought. I thought I answered the question, actually, from that point of view.

Senator O'CHEE—What I am saying to you is that a whole range of these calculations have been done. Using the HES data set and using all those figures Treasury has come up with figures that are less on average than the compensation. Given the worst possible assumption under the Melbourne Institute they are still, again, less than the compensation. You have to accept the fact that, given that the average in every one of these groups is less than the four per cent, at least the majority of people in those groups will be better off, will they not?

Mr Thomas—Are these assumptions also based on the fact that 100 per cent of price changes are going to be passed on? Again, there are a whole lot of assumptions built into the discussion here, and we are often only getting asked to comment on part of it. That is obviously an issue which APSF raised, and we see that as a critical issue for acceptance of the GST, for consumers to be fully cognisant of what is happening and for them to accept that Alan Fels and his people have got this thing under control. Not only is it another thing which creates a great deal of uncertainty but from our point of view it is a bit unrealistic to expect 100 per cent to be passed on. We do not believe that businesses are going to go out and totally rort the system, but we are not naive either from that point of view.

Mrs McGuire—I would like to add a little to that. We get CPI increases. Invariably when the increase comes through we have calls from people who say, 'My food went up a lot more than that. Everything goes up more than the CPI.' We know that those figures are used by financial whizzes who are working those things out. The problem is that the people on the ground still do not believe they are being compensated for the increases in the necessities that they have to buy. So one of the things that the government needs to look at is whether that kind of thing is happening with the GST because, believe me, it will.

Senator O'CHEE—I just go back to what Mr Thomas said just before. I can understand why you might be sceptical. I should point out that there were various modellers who looked at different pass-through rates, and they were all included in those things. But let me put the converse to you: given that there have been all these economic studies and all of this modelling work, why are there not a couple of modellers who are saying that people will be undercompensated? Why do we not have people—

Senator GEORGE CAMPBELL—He just said earlier that they have not got any funding to do it.

CHAIR—Order!

Senator O'CHEE—Can I just finish off the question? Why do we not have a range of economists like Chris Murphy or Ann Harding, and so on, saying that these people will be undercompensated? None of them have said that. If your argument was true why do we not have some saying that?

Mr Thomas—My understanding is that many of those people have said that they feel that the compensation needs to be upped in any case. I think that many of them accept that there is little risk in this. I do not know that those people are saying the compensation is adequate. We, for one, are not prepared to take that risk, and I think that the community should not be expected to gamble that these figures are right.

Senator O'CHEE—This is my final question. One of your options is to exempt food. Leaving aside the compliance issues—let us assume that is not a problem—you still say on page 1 of your paper that that leaves a shortfall to revenue. Would you still suggest that we impose a wealth tax or an inheritance tax to make up that hole?

Mr Thomas—I am glad that you are interested in wealth tax and inheritance tax. We have received letters from Tim Fischer. Every time we raise it publicly people jump and stomp on our hands and say that we should not be talking about it. But I think part of the reason we, along with a range of other people in the community, embarked on seeking a fairer tax system is that we want people to pay their fair share. I could put my hat in with Vince FitzGerald, who also argues that a wealth tax is a pretty efficient tax. I do not want to see headlines tomorrow screaming that pensioners are calling for a wealth tax again, because it is not very popular. But it is something that we will not shy away from, and I think if you are principled you will not.

Mrs McGuire—I must add that there are other ways of raising taxation revenue, and we do not need to go through them because I am quite sure you have heard them a dozen times. Why impose a tax on people with the least and not worry about those with the most who are not paying their fair share of tax?

CHAIR—Thank you very much, Mrs McGuire, Mr Thomas and Mr Whiley, for assisting our inquiry in the forthright manner in which you have this afternoon. This concludes the Sydney chapter of our hearings. We will resume in Melbourne tomorrow at 9 o'clock at the Melbourne Convention Centre when we will start with the Aboriginal and Torres Strait Islander Commission.

Committee adjourned at 4.46 p.m.

