



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

Reference: A new tax system

WEDNESDAY, 24 FEBRUARY 1999

KALGOORLIE

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SENATE
SELECT COMMITTEE ON A NEW TAX SYSTEM

Wednesday, 24 February 1999

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

Substitute members: Senators George Campbell and Chapman

Participating members: Senators Brown, Colston, Harradine and Margetts

Senators in attendance: Senators George Campbell, Chapman, Cook, Gibson, Murray and Sherry

Terms of reference for the inquiry:

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

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

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

- government and its activities, particularly commercial activities,
 - (vii) the implications for the delivery of Commonwealth Government services, including employment services, welfare and other social and cultural services, and
 - (viii) the extent to which the proposed compensation arrangements are secure from change to below adequate levels;
 - (s) the adequacy of measures to ensure that consumers fully benefit from the abolition of existing taxes;
 - (t) the effects of the taxation reform legislation proposals on legal and constitutional matters, including:
 - (i) the constitutionality of the proposed mechanism for future changes to the GST, including whether such changes would present a significant hurdle to future increases, or reductions if deemed necessary to stimulate the economy,
 - (ii) the constitutionality of the proposed reorganisation of federal-state tax arrangements and whether the powers and functions of states and territories are materially affected by this reorganisation, and
 - (iii) the effects of the proposals on the cost of access to justice; and
 - (u) options for amending the proposed legislation to improve its fairness or efficiency.
- (4) That, in reporting on the matters referred to in paragraph (3), the committee have regard to the reports of the references committees referred to in paragraph (17) and integrate the findings of those committees into its final report where relevant.
- (5) That the committee consist of 7 senators, 3 nominated by the Leader of the Government in the Senate, 3 nominated by the Leader of the Opposition in the Senate, and 1 nominated by the Leader of the Australian Democrats.
- (6) That the committee may proceed to the dispatch of business notwithstanding that not all members have been duly nominated and appointed and notwithstanding any vacancy.
- (7) That:
- (a) senators may be appointed to the committee as substitutes for members of the committee in respect of particular matters before the committee;
 - (b) on the nominations of the Greens or independent senators, participating members may be appointed to the committee; and
 - (c) participating members may participate in hearings of evidence and deliberations of the committee, and have all the rights of members of the committee, but may not vote on any questions before the committee.
- (8) That the committee shall elect as its chair a member nominated by the Leader of the Opposition in the Senate.
- (9) That the committee shall elect as its deputy chair, immediately after the election of the chair, a member nominated by the Leader of the Government in the Senate.
- (10) That the deputy chair act as chair when there is no chair or the chair is not present at a meeting.

- (11) That the committee have power to send for and examine persons and documents, to move from place to place, to sit in public or in private, notwithstanding any prorogation of the Parliament or dissolution of the House of Representatives, and have leave to report from time to time its proceedings and the evidence taken and such interim recommendations as it may deem fit.
- (12) The quorum of the committee shall be a majority of the members of the committee.
- (13) The committee set 29 January 1999 as the date for receipt of submissions.
- (14) That the committee hold hearings in each state and territory as required.
- (15) That the committee be provided with all necessary staff, facilities and resources and be empowered to appoint persons with specialist knowledge for the purposes of the committee with the approval of the President.
- (16) That the committee be empowered to print from day to day such documents and evidence as may be ordered by it and a daily Hansard be published of such proceedings as take place in public.
- (17) That the following matters be referred to references committees in accordance with the schedule below for inquiry and report by 31 March 1999, and that in undertaking these inquiries the committees have regard to the report of the Select Committee referred to in paragraph (1) and consult widely, holding hearings in each state and territory, as required. Submissions to these inquiries are to be made by 29 January 1999.

Committee	Matters for Inquiry
Community Affairs	<p>The impacts of the Government's taxation reform legislation proposals on the living standards of Australian households (especially those on low incomes), including:</p> <ul style="list-style-type: none"> (a) the scope and effectiveness of the proposed arrangements on charities, child care services, aged care services, welfare services, local government human services and all not-for-profit organisations in maintaining the quality and affordability of essential community services, including the implications for the public funding of these services and the implications for the commercial activities of these organisations, and whether unconditional GST-free status should apply to <i>bona fide</i> charities; (b) a detailed examination of the zero-rating of health services, including an examination of which services should be zero-rated; (c) the effects on community sector organisations of changes to their tax exempt status, and of the compliance costs of the proposed tax arrangements; (d) the effects of the proposed private health insurance rebate; (e) the effects on people with disabilities;

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

- (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

BIRNEY, Mr Matt, Executive, Kalgoorlie-Boulder Chamber of Commerce and Industry	1159
CAMPBELL, Mr Graeme (Private capacity)	1157
CAULTON, Mr Andrew Donald, Executive, Kalgoorlie-Boulder Chamber of Commerce and Industry	1159
CIANTAR, Mr Raymond, Acting Chief Executive Officer, Goldfields Esperance Development Commission	1139
FINLAYSON, Mrs Kathleen Margaret, Chairman, Goldfields Esperance Development Commission	1139
GALLAGHER, Mr Hugh Henry, Executive Director, Kalgoorlie-Boulder Chamber of Commerce and Industry	1159
GILBERT, Mr Ernest Martin, Vice-President and Minutes Secretary, Goldfields Aged Pensioners Welfare Association	1126
HILL, Mr Richard Gavin, Membership and Industry Services Committee Member, Kalgoorlie-Boulder Chamber of Commerce and Industry	1159
McKENZIE, Mr William Thomas, Vice-President and Head Coach, Kalgoorlie Amateur Swimming Club	1192
TIELEMAN, Mr Walter John, Chairman, Taxation Committee, Association of Mining and Exploration Companies (Inc)	1178
TINETTI, Mr John Henry, Secretary-Treasurer, Goldfields Aged Welfare Association	1126
YURYEVICH, Mr Ronald Stanley, Mayor, City of Kalgoorlie-Boulder	1109

Committee met at 9.35 a.m.

CHAIR—This hearing of the Senate Select Committee on a New Tax System will now commence. Today the committee continues its inquiry into the proposed changes to the Australian taxation system. During the first stage the committee concentrated on the economic theories, assumptions, calculations, projections, estimates and modelling which underpin the government's proposal for tax reform. A report on the first stage of the inquiry was tabled in the Senate last Thursday, 18 February 1999.

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

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

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

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

Is it the wish of the committee that submissions 1281, 1304 and 1333, and the submissions made by the Kalgoorlie-Boulder Chamber of Commerce and Industry, the Kalgoorlie Amateur Swimming Club, the Association of Mining Exploration Companies and the Kalgoorlie Taxi Car Owners Association be made public? There being no objection, I now declare that those submissions to this inquiry, together with their attachments, may be released.

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

[9.40 a.m.]

YURYEVICH, Mr Ronald Stanley, Mayor, City of Kalgoorlie-Boulder

CHAIR—Mr Yuryevich, the normal process is that we invite you to make an opening statement, if you so wish, covering the main points of your submission for the attention of the committee and then, if you would be kind enough, you might allow yourself to be asked questions by the committee. I can reasonably certainly assure you that members of the committee will have questions for you.

Mayor Yuryevich—I appear on behalf of the city in regard to the soon to come, or whatever, GST in regard to the tax reform system. I make it clear that the City of Kalgoorlie-Boulder neither supports nor condemns the purpose of a GST or the implementation of a GST. However, in the light that we do achieve a GST, there are some issues that I would like to point out.

The first issue as such is the regulatory charges in regard to local government generally, obviously more concerned with the City of Kalgoorlie-Boulder of today. But we raise various fees and charges, et cetera, in regard to planning fees, licence fees and all the rest of it. They are a part of our system of taxing—that is, local government system of taxing to raise revenue—and, as such, we believe they should not be subject to GST. We have, in fact, a property tax which is classed as your general rates or rates revenue for local government, and I know that the government have conceded that the GST will not apply to property tax.

In the matter of fuel tax and road provisions, we are most concerned at any impact the GST will have on the ability of the City of Kalgoorlie-Boulder to continue the work program as it exists today, which is operating at about 50 per cent of what it should be, given the amount of money that is coming back through the fuel excise charges to the City of Kalgoorlie-Boulder. So we believe that existing imbalance must be addressed by the government in regard to all communities in Western Australia, not only the City of Kalgoorlie-Boulder.

The GST administration, again, is a grey area. We are not really sure how we are going to be handled on this one, but we can see the possibility of more people being employed to administer a GST. I know that it is put forward that local government is going to save \$70 million in so-called hidden sales tax charges. I do not know how you can prove that, but that is what has been proposed. In that case, if we are part of it, I suppose you could say that we are going to recover some money in that regard. I do not quite believe that until it can be shown how we are going to make that sort of money. On that point, then, it comes down to how we are going to administer the GST if it in fact applies to local government.

Of course, with the GST, as far as the City of Kalgoorlie-Boulder is concerned, we support it 100 per cent. We maintain that—because of the proposed change of revenue, passing on the revenue away from the federal government to the state government—that arrangement must be tied so that the state government cannot let us compete, if you like, with any other, for argument's sake, schools, hospitals or whatever else for the dollar. Presently the federal government directs the money through to local government on a state

formula. On that matter, too, we believe that local government should have access to growth revenue, and by that means we have come to the conclusion that six per cent of the GST take would be appropriate to go to local government. We would take higher if you are prepared to offer it.

The main contentious point, I suppose, is the local government community service obligations, and I certainly can see that governments throughout Australia are moving quickly away from community service obligations. Local government is left holding the bickie bin, if you like, with not much in it. On that basis I can point out a couple of points of interest for the committee. First of all, we have to have a clear understanding of what a community service obligation is. I was at a meeting in Canberra where the Hon. Wilson Tuckey made the comment that if the activity is undertaken as a commercial activity anywhere within Australia then it will be classed as a commercial undertaking and you will pay your GST, which we have some problem with. So we need clear guidelines in that case.

I have mentioned in the submission the waste facility, which costs us some \$840,000 a year. No-one else runs a waste facility. It is there for environmental and health reasons, as is the collection of your rubbish every day—which is obligatory by the way; we do not give anyone a choice of that. I cannot see why a GST should apply to waste collection, which is a fundamental health issue.

We operate the community centre out of here very successfully with a \$479,000 grant. It operates at a \$630,000 budget and leaves the City of Kalgoorlie-Boulder \$151,000 to pick up. On that basis, this is somewhat of a cost shift from federal governments, past and present, in moving services on to local government and is what I call taxation by stealth.

Our library costs \$590,000 a year to run. We recover \$43,000, so a GST, we believe, should not be applied to that anyway. Sports grounds, of course, are the same: \$½ million dollars and very minimal amount of income on that.

The interesting one, I suppose, is the aquatic centre—and this is the one Wilson Tuckey touched on. As we have an operational budget of \$500,000, not taking into account depreciation, et cetera, we operate at a loss of about \$258,000. Obviously, we are 400 kilometres from Esperance and any decent water. We service 136,000 patrons a year and we charge \$2.80 for an adult and \$1.50 for a child. If you work it out, you can figure out that, if everyone was charged \$2.80, we would be subsidising each person \$1.90. Obviously, it is not a commercial concern in any way and, on that basis, we believe GST should not apply to it.

Just in conclusion, we agreed that the GST should not be imposed upon rates; that is proposed. A GST should not be imposed on statutory services or law enforcement. A GST should not be charged on services that are provided to the community as part of the community service obligation. A GST should not be imposed on domestic rubbish collection or waste facility operation or maintenance. A GST should not be imposed upon domestic sewerage provisions which we operate here independently. And we seek six per cent of the GST revenue to allow local government access to growth revenue.

There are other issues that I have put in the report, but I think at the end of the day a suggestion that was made previously I quite warm to, and that is that, if the federal government is dinkum about supporting regional Western Australia, or regional Australia for that matter, it should be seen to be doing something in that regard. I think the suggestion of five per cent GST in regional Australia would be more appropriate than 10 per cent so it gives some equity to the people that are prepared to go into regional Western Australia, in our case, to produce the 43 per cent of income to the GDP. Thank you, Mr Chairman.

CHAIR—Thank you, Mr Mayor. If I can just lead off for a moment, you said to us that you are neutral as far as whether the package is worth while or not but that, if it were to go ahead, you have got a series of concerns about it.

What I would like to do in this report to the Senate is to be able to articulate what each witness who appears before us says are the concerns that they have or the amendments that they would seek to the legislation. Our report is, after all, to guide the Senate and to inform the Senate on what has been said to us. Would you be able to supply us with just such a list, not immediately but soon, of what particular changes you think are necessary—the ones that you have referred to in your submission or any others—in a comprehensive way?

Mayor Yuryevich—I certainly will undertake that.

CHAIR—The other question is really a more general question. You have referred to where you provide community services at a loss but do so to serve a community necessity or to provide a service that enables a better quality of life for your local community. The government has said that these bills should pass in their entirety. We can all be cynical and say, ‘Maybe they won’t.’ But the position that we have and face is that the government says it will not change any of this legislation.

If these bills did pass without any of the legislation being changed and if the issues that you have raised were not addressed, can you say what cost that would be to your local authority, either in a reduction in services, a cut in employment or an increase in rates, to cover a delivery at the same level of services that you deliver now for your authority? They are the three options, I think. A fourth option is to go into deficit, but I discount that.

Mayor Yuryevich—Currently, under the grey guidelines, if you like, that exist under this GST proposal, it is very hard to quantify those sorts of situations as you ask. All we can figure out is that it is going to cost us more money to comply. It is suggested that we are exempt on various issues, but it is still grey. Take the Wilson Tuckey point of view that, if it is commercial anywhere, it is going to be charged as a GST. Particularly in the community service obligation sphere, if the pool continued—and it will continue; in fact we are opening a new one very shortly—to operate with a GST which precludes people from attending, it would mean that our deficit would rise. Therefore, we have got to get that money from somewhere. Obviously, as you well know, raising rates or any sort of revenue direct from the constituents is a problem with a lot of people. I suppose, in short, I cannot answer it entirely, but I will certainly in my back-up submission try to quantify that to a degree.

CHAIR—Thank you very much.

Senator GIBSON—I am pleased to be here, Mr Yuryevich. If the tax package does not go through, with or without the GST, your situation would basically stay as it is now, wouldn't it?

Mayor Yuryevich—That is what I expect.

Senator GIBSON—Is it not also true that the government has in fact signalled, for most of the issues you have raised with regard to rates, with regard to garbage and with regard to sewerage, that they are GST-free services?

Mayor Yuryevich—It is an indication we have from Senator Macdonald.

Senator GIBSON—Yes. Is it also true—and I quote from the new tax system book—that the estimates are that for local government in Australia, as you said yourself, costs are about \$70 million lower because of embedded taxes in things you are buying? I just quote one instance. Here in Kalgoorlie-Boulder, where transport is such an important issue for everybody in this community, the government's estimate is that road transport charges will go down by 6.7 per cent. The Road Transport Forum, who appeared before this committee two weeks ago, estimated that for heavy trucks, big semitrailers and the like, because of the relief on wholesale sales tax at 22 per cent on trucks, tyres and parts and the 25c a litre coming off excise and the 7c a litre coming off on GST, the cost is going to go down somewhere between 15 and 19 per cent. Won't that have a significant impact on the health of all businesses here in this community?

Mayor Yuryevich—We would like to think so, because the transport is an impact on our way of life here obviously. I have not seen or read anywhere within the proposed tax reform package where they are going to ensure that that is passed on. I know, if the companies do make that saving, it might well end up in their back pocket.

Senator GIBSON—Can I just respond that the Road Transport Forum who appeared before us two weeks ago instanced that the last time there were oil price crises in Australia the price of trucking around Australia for heavy trucks went up with the crisis price rise and then came down straight afterwards. Because trucking is such a very competitive industry—and that was the evidence put before us—one could be confident they will come down. Besides that, you have got the ACCC given more resources and more power to chase that through if anyone has complaints.

Mayor Yuryevich—I certainly hope you are right, Senator.

Senator GIBSON—Isn't it also true that the federal government has got agreement in principle from each of the Premiers and Chief Ministers—in principle from a meeting in November 1997 and again agreement in principle to the draft agreement of November last year—that the states would in fact keep up exactly the same payments to local government as they get from the Commonwealth now?

Mayor Yuryevich—Yes, I understand that to be the case—the preliminary agreement, I suppose. But I understand also that it is not cast in stone in that respect.

Senator GIBSON—I do not know about that. But I understood that everyone basically had agreed in principle about that. You have raised the other issue that you deserve more. That is a separate issue really. And there is your relationship between the state and local government.

Senator MURRAY—Mayor, with regard to individuals, the government has made two commitments. One is to provide compensation for the GST through income tax cuts, and the second, with people like pensioners, is to provide them with a certain percentage increase in their pension to cover the impact of a GST. One of the things they specifically said is they will put a 1½ per cent cushion there—whatever the CPI turns out to be, whether it is their estimate of 1.9 in year two, or more, or less, which is unlikely.

One of the things you are searching for in local government is certainty in funding and a certain hypothecated amount being made available to you. But there is a top-up option, which has not been explored yet, on the government's own principles. That might be that each local government, at the end of the first year after the imposition of this, would actually be able to tell the world whether they made money on it—as is suggested by the government—or in fact increased costs because of it. Is it a viable or a feasible alternative to put to the government an obligation to top up local government where in fact the effects of the GST and the tax package taken as a totality result in greater and unforeseen costs which they have not estimated yet?

Mayor Yuryevich—Absolutely. I have touched in my submission on the fact that we have to safeguard what we do get now, minimal as it is. On that basis, I quite like your idea of 12 months rather than a reassessment after five years or whatever might be suggested. So I agree completely with that aspect if we are going to be forced to take this on.

Senator MURRAY—Your accounting system is sophisticated enough, isn't it, to be able to identify the difference between a base year and the year after the new package?

Mayor Yuryevich—Yes, it is.

Senator MURRAY—Moving on to the very valid points that both you and Senator Gibson made about the importance of road funding and road transport in your region, the state government did have an hypothecated tax—as you will recall, 4c on a litre of fuel at the pump point. My assessment is that by and large it was acceptable to the community because they knew where it was going and that it was much needed. As you know, the High Court decision meant that that had to be dropped.

However, my view is that if the Commonwealth government was to permit it to continue that would get over the constitutional hurdle since the authority came from those who had the authority. Would you support a move by the Senate to ask the Commonwealth government to reinstitute the power of a state government to impose hypothecated taxes at the petrol pump for road funding—of course, only if a state government wanted to do it; the option would still be in their hands—to give them back that option?

Mayor Yuryevich—Yes, I would, totally.

Senator MURRAY—Are the benefits of such activity very much biased towards country, rural and regional Australia, or is it shared equally between metropolitan and—

Mayor Yuryevich—No. I must admit that I think the revenue that was coming from that is somewhat biased towards regional Western Australia. Particularly with what we have in local government in Western Australia, an agreement with the state Minister for Transport—which we are currently renegotiating—means 25 per cent of the funds coming from the 4c and the licensing is returned to the local government bucket, if you like. It is still not sufficient, but at least that is the only situation we have in Australia where a state government is prepared to go into partnership with local government.

That right was taken away with the High Court challenge. Obviously, we are still working on that principle; it is coming through the conduit of the federal government, of course. But at least the state government, if they so wish and want to go the people—and they take the electoral risk, of course, to up it to 6c or whatever it might be rather than putting another \$50 on a licence fee or something like that to raise money—can then leave it with local input and local decision.

Senator MURRAY—Moving on to an example you gave as to where you think there is a potential problem—and that is of domestic rubbish collection—I want to draw an analogy with banks. If a bank contracts to an outside valuer for valuations under the GST system, that valuer will have to apply GST to that service. If, however, they use an in-house valuer, they will not. Surely, domestic rubbish collection, where it has been contracted out, is a service and should get the 10 per cent applied to it, as you would normally expect. But, if it was an in-house service provided by the council, it would not, because it is just part of your total operation. What do you think of that distinction between commercial activity and what is an intrinsic council activity?

Mayor Yuryevich—I think that distinction unfortunately brings the GST program into disrepute simply because of the silliness of that situation. If you employ someone in-house, you can go away and do it. We have gone and contracted out our waste collection and our waste management at the waste facility, in accordance with the Hilmer activities, if you like, foisted—

CHAIR—Competition policy.

Mayor Yuryevich—Competition policy, yes, as laid down by the federal government and the states, that when you do partnership on this deal you tie in local government. Unfortunately, on the federal side, a guaranteed X amount of millions of dollars to the states was not tied in. It did not tie in, in any way, any downloading or part of that funding to local government, but we still have to comply with all aspects of the national competition. So, on that basis, we have gone off and we have done these sorts of things. We can surely bring it back into house but, again, if you go along with Fred Hilmer, you are looking for the efficiencies of everything. So, if the efficiencies are employing someone external, what is the problem? I do not see it being a problem, and I certainly do not see it being applied as a 10 per cent tax on that privilege.

Senator MURRAY—You can see the point, though, can't you? With business corporations, in-house services by lawyers, accountants, valuers, advertisers, computer personnel and so on, the GST will not apply because it is an in-house cost, whereas if you contract that outside it will apply. Of course, many of the service companies are frightened that business will move back into corporations which is presently outsourced. From your point of view, if the efficiency gain of contracting out domestic rubbish collection was eight per cent—just to invent a figure—but the additional cost is 10 per cent, the incentive must be on straight competition on efficiency grounds to move it back in-house. But you would not expect, if they were in-house—and a number of these things you have itemised are in-house from the council's point of view—that they should attract GST because they are a part of your total service, aren't they?

Mayor Yuryevich—They are—and I take your point. Obviously, that is where the service companies are concerned. At the end of the day, we look at what we have to charge the consumer. We invoice the consumer. It is not invoiced by a contractor. So it is part of our services and, on that basis, a spreading of the effect of operating the facility. I agree with you that if that is the situation—and I am not sure whether that is going to be the situation in this new reform process—we would have to seriously look at what that cost is going to be to the consumer.

Senator GIBSON—In that instance you were just talking about, if a GST were paid on an external service, since the council is GST free, that would be rebatable to the council.

Senator CHAPMAN—It is an input cost to the council which you would claim back.

CHAIR—That is right. You have to pay it up-front, carry it and reclaim it. So there is a cost in terms of carrying it.

Mayor Yuryevich—Providing it extends to a remittance on that matter, which is a grey area.

CHAIR—Yes, that is right.

Senator CHAPMAN—What is a grey area? It is clearly an input cost to the council.

Mayor Yuryevich—Yes, it is, but we went out and tried to source from the government definitive guidelines on whether it was going to be remitted back to the local government. At this point we have not received an answer.

Senator MURRAY—That was the point to my question. I understood the answer had not come back.

Senator GIBSON—Local government associations are still negotiating with the government about that fine detail, aren't they?

Mayor Yuryevich—Yes. We all find it perplexing why they cannot actually answer those questions so that we know where we are going.

CHAIR—I must say that I find it perplexing. I am going to be asked in a month or so to vote on this legislation, and if I were to vote not knowing what the answer is for you and the ratepayers of Kalgoorlie then I would be voting blind. I would not be able to evaluate the impact on real people in a real location. There is a wider question: should we take more time on this inquiry to find out what will happen before the Senate has to rush through legislation? It is not a matter I think I should invite you to comment on, but it is an issue for us in the question of timing.

Senator SHERRY—Mayor, you have outlined quite an impressive list of community service obligations—your aquatic centre, the community centre and a library. I notice you also run and operate the local airport, which is obviously very important. Could you just explain whether the provisions to sporting and community groups include grounds, ground maintenance, halls and those types of facilities?

Mayor Yuryevich—Yes, they do—totally.

Senator SHERRY—Do you make any charge at all for those facilities?

Mayor Yuryevich—For junior sport, we make no charge; for senior sport, there is a nominal charge. Basically, it covers picking up rubbish on the weekends.

Senator SHERRY—I have heard of the Kalgoorlie Cup, even in Tasmania. Do you own the ground that that is run on?

Mayor Yuryevich—No, the local racecourse committee owns that.

Senator SHERRY—They will have to pay a GST anyway. Considering all the charges you make on this range of services, if you did not provide these services do you think the private sector would provide them?

Mayor Yuryevich—No, because it would not pay. The private sector will only provide a service if it can make a profit.

Senator SHERRY—It seems to me that this highlights the absurd situation you and particularly rural and regional councils are in. You are providing a service, it is not in competition with the private sector, yet it is very clear you will have to pay a GST on the charges you make, you will have to add the 10 per cent to these services as well. As we understand it, there is no doubt about that.

Mayor Yuryevich—That is a problem. Some of it is pretty grey, and we are not sure what is actually going to apply in a lot of cases. If that is to be the case—and we go by donations basically—then those sporting and community organisations will have to pull back their activities.

Senator SHERRY—For example, there will have to be 10 per cent added to the aquatic centre charges of \$2.80 for adults and \$1.50 for children. You have no choice, it seems to me, and that is an example of the flow-on cost to the community for providing what is an essential community service. The private sector is not going to do it.

Mayor Yuryevich—Correct.

Senator SHERRY—It seems to me that that is an example of the absurdity of the theory. It might work in big cities where you have private aquatic centres. I do not know that there are too many private libraries around. But you have to pay an additional tax on a fundamental community service.

You will inevitably be faced with either absorbing that 10 per cent and increasing the cost to the council or passing it on to the ratepayers as higher charges. Senator Cook put a scenario to you earlier that, where you charge, you either add the 10 per cent for the services that you provide or you absorb the cost. It seems to me you are going to have to put up rates, cut back in expenditure somewhere else or cut employment. What sort of scenario do you think is likely?

Mayor Yuryevich—I cannot speak on behalf of the City in this regard, but if that comes to pass then I could imagine the services would be cut. The matter of raising rates on the properties around town is another local issue. Because of the high mining activity in this area, high rentals are applicable and high valuations by the Valuer-General are applicable and they affect us in our grants as well. When all this is put together and you go to the ratepayer and say, ‘We want to put up your rates by 10 per cent to cover whatever,’ it is about as welcoming as the federal government putting up PAYE tax.

Senator SHERRY—It seems to me that rural and regional Australia and councils like yours are providing vital community services that most other Australians in Sydney or Melbourne would expect to be the norm and that because of your geographic isolation—it is not unique; there are many other communities in a similar situation—you are going to be penalised because of the national theory of the way a GST should apply.

Mayor Yuryevich—That is true.

Senator SHERRY—You will have to charge a GST on a myriad services. You have mentioned some of them, and I assume you have charges for other services.

Mayor Yuryevich—There are a lot of little charges throughout the city, yes.

Senator SHERRY—Could you give me a couple of examples?

Mayor Yuryevich—I do not know if planning is in there, but planning fees will be coming in in a real way shortly because of state legislation currently going through the upper house. We have other issues such as charges to administer the sign by-law, notwithstanding the other little issues of street trading in public places—things like that. Obviously, if the federal government is looking at grabbing 10 per cent of all that as well, that is an additional impost.

Senator SHERRY—There are a myriad services that you will have to put a GST on. Some things you will not have to put a GST on—like rates, it appears—but there is no specific exclusion in the legislation. Let us assume that you are going to be putting a GST

on many of your community charges and some things you will not apply GST to. Have you weighed up the administrative cost of all of this?

Mayor Yuryevich—No, that is the hard part of it: trying to figure out what is going to be chargeable and what is not going to be chargeable. Obviously, as the package suggests, there is going to be some \$500 million to business to incorporate this should it come to pass. We believe local government should be incorporated in that \$500 million to try to change the system to recognise that easily if it is at all possible.

Senator GEORGE CAMPBELL—I want to come back to a point you raised earlier, Mayor Yuryevich, and I do not know whether it was facetious or serious. It was the proposition you put forward about looking at a five per cent GST in regional Australia vis-a-vis metropolitan Australia.

Mayor Yuryevich—I was serious.

Senator GEORGE CAMPBELL—We had evidence given to us yesterday by the Royal Automobile Association of South Australia in which they indicated that there would be a differential increase in the cost of petrol between city and country, and they gave some examples. They said that there would be an increase in petrol charges in Coober Pedy and a reduction in petrol charges in Adelaide. There is no argument about the variation of that across various regional areas, but the main point they made was that there would be differential application of it between metropolitan and rural and regional Australia. Just using that as an example, have you attempted to examine what the differential cost of the application of the GST is going to be to your council operating in regional Australia vis-a-vis a council operating in the metropolitan area?

Mayor Yuryevich—Not personally, but I understand the Australian Local Government Association is currently trying to differentiate that in a whole of Australia type issue—regional versus city.

Senator GEORGE CAMPBELL—Are they doing that in the context of submissions for this committee?

Mayor Yuryevich—Yes, it is a follow-up.

CHAIR—Do you have any further questions, Senator Chapman? I have a couple of questions. Do you want me to go first so you have the drop on me, or the other way around?

Senator CHAPMAN—If you would like to do that. I will come over the top.

CHAIR—You are not an Adelaide Crow and I am not a West Coast Eagle, so that is fine.

Senator SHERRY—I am a sad Geelong supporter.

Senator CHAPMAN—My commiserations.

CHAIR—We can be unanimous in endorsing that. I just want to tease out this problem a bit more. The government has a \$700 million compensation package for local government. That is for all local government authorities in Australia, and it is not \$700 million for each local government authority. That \$700 million has to be divided between the lot of you. I am not sure how many local government authorities there are in Australia. Do you happen to know that?

Mayor Yuryevich—I think there are something like 876. There are 144 in Western Australia, I know that much.

CHAIR—Obviously the \$700 million is not going to be divided equally; it is going to be weighted according to population and need. It does not come out as a large figure for each authority in compensation. You have itemised a series of charges which you will have to absorb in some way, and your share of the \$700 million will compensate you to some extent for that.

What we do not know, and what is hard to fathom at this stage given the information base we are operating from, is whether you will be a net winner or a net loser. But you have to, prudently guarding the finances of your authority, raise these questions for us. If you are a net loser, then the choice for the council is to sack some people to make up the difference, cut back on services or raise rates, and there are no other ways out. One of those three choices has to be stared right in the face and a decision made about it.

In answer to a question from Senator Sherry, you indicated the probable question—and no-one is holding you to this because it was hypothetical and you were giving a hypothetical answer, but for guidance—would be answered by a reduction in services; therefore, you would maintain the rates level and the employment level of your authority. But we do not know at this stage what services they would be and how far they would be reduced if they were. That is a long preamble.

I am a senator for this state and you are a local government authority in this state. I have an obligation to represent this state in the Senate. Do you have any advice for me when it comes to my having to cast a vote on this legislation? Would you advise me not to vote until you knew the answer and could stare your ratepayers in the face and say that this is good or bad? Or would you advise me to seek an adjournment until those answers were clear?

Mayor Yuryevich—I suppose that is putting me on the spot to a degree.

CHAIR—I am going to be on the spot. I just thought I would shunt it on to you for a moment. It is a problem that both of us have. We are both politicians who represent constituencies at different levels of the political structure in Australia.

Mayor Yuryevich—When I sit in that chair and chair my council meetings here, I am very clear on the fact—and it is required under the 1995 Local Government Act—that you must not vote on something you do not fully understand. In that respect I would have to say, yes, if you are not sure of the effect this might have throughout, you would seek to have it moved over or whatever. Notwithstanding that, I think it is imperative that we reform the tax system—I do not back away from that one iota. We have to do it. It is a mess. I could use

some other words but I should not here, but the fact is that it is not working, and that has to be attended to.

CHAIR—I agree that we should reform the tax system. I do not agree that GST represents a reform; I think it is a regressive tax. But that is what the heart of this debate is. The government calls its package ‘reform’, but that is its name for what it is proposing, and of course it will put its most favourable spin on what changes it wants. But reform, I suspect, is very much in the eye of the beholder. A GST, in my view, is not reform. But we can agree that there is a need to improve the tax system. There is no doubt about that.

Can I just persist with this for a moment. Under the Local Government Act, if you do not understand it, you are required not to vote. That would be your advice to me? If the implications of this package are not clear to your council and not clear as to whether a yes vote diminishes the quality and type of services you are able to provide, then we should find out and the government should provide the answers to those questions so that we do know the impact before we vote.

Mayor Yuryevich—Yes, I agree.

CHAIR—Do you provide any welfare services?

Mayor Yuryevich—To the extent of the community centre. We provide various services through our community centre there, which equates to some \$151,000 topped up by the HACC funding that we get from the federal government. It depends on what you class as a community service as well.

CHAIR—What sort of services are they?

Mayor Yuryevich—We obviously run a community centre where all the people come along and enjoy the various services. We run turndown services for the elderly, including weekends. We are running all those sorts of programs. Meals on Wheels, obviously, is partly funded. We have taken the action of bringing that in-house. We used to get the meals cooked at the prison at a particular rate. There was some concern about the quality, so we brought that in-house and obviously the council wears an additional cost in that respect. The quality, I am told, has improved somewhat.

CHAIR—At the beginning of this proceeding you heard me read out essentially what the purpose of this inquiry is. One of the things I referred to was that we have to have regard to the impacts on low income people. Kalgoorlie-Boulder is a growth centre, but my impression is that there are lots of older people who have grown up here who still like to live here. Some of them have fled to Mandurah or to Esperance, but there is still quite a large elderly population. Am I right in that?

Mayor Yuryevich—It is not large, no. It is running at about 16 per cent, I believe.

CHAIR—16 per cent of your community.

Mayor Yuryevich—Over 55.

Senator SHERRY—That is above the national average. If it is 16 per cent above 65, it is above the national average.

Mayor Yuryevich—55.

Senator SHERRY—55; okay.

CHAIR—What I am coming to is this: the distinctive feature of low income or poor people is that they have no flexibility in their household budget to afford more costs and, therefore, they go without. They go without some food, clothing or fares or whatever else. Usually, to the extent that they are able, charitable groups wear the burden of what they go without and try and pick that up, but not perfectly and so forth. That is why we have poverty.

However, the thing about regional Australia—and I will just give you an example—is that a lettuce, for example, in Perth might cost \$1.50 but would cost \$2 here. If you apply 10 per cent to \$1.50, it goes up 15c, but to \$2 it goes up 20c. So by applying a 10 per cent tax across the board you are actually increasing prices in rural Australia at a higher rate than you are increasing them in urban Australia. For people with little flexibility or no flexibility in their household budget, you are actually putting them in a situation where they go without.

I do not know if anyone has had an opportunity to work through what the implications are for regional local government or regional charitable organisations that then come in and pick up that extra cost and whether, at a time at which you are thinking of cutting your cloth to suit your income—that is, reducing services—there may well be a higher demand for those services.

Mayor Yuryevich—That is a fair assumption, yes.

CHAIR—You agree with the assumption. Let me ask you the hard question, because this is the hard question—and all of us who manage budgets have to answer these very difficult questions. What do you do about it?

Mayor Yuryevich—That is the whole problem, isn't it? You have to find money somewhere to meet the demands of your community. In our instance—and obviously we are close to the people—people reflect that to us more than they reflect it on the federal or state scene. So, again, it comes back to where do you get the money from. You either get the money from rates or you retract your services and something else goes.

Senator GEORGE CAMPBELL—Are these areas of welfare services that Senator Cook is talking about some of the issues that are being looked at in the survey work that is being done by the Local Government Association? Will they be taken into account in that survey work?

Mayor Yuryevich—I expect it to, but I cannot answer directly on that. It obviously is a concern that it will have that reflection on us. For the privilege of living in regional Western Australia, we look like being hit another 33 per cent on a lettuce. That is a concern, obviously.

CHAIR—That is just an example; it will just about everything else. Someone else has asked you about the Royal Automobile Association of South Australia, which is the SA equivalent of the RAC. I imagine that their survey of outback South Australia is true of outback Western Australia as well. One of the other groups that put evidence to us—and I forget their precise name—was an association representing all of the operatives of rail services in Australia who are state government owned entities and who have the association to push the advantages of rail as one mode of transport over the competing transport modes of road, sea and air.

Their complaint was, in essence, that they are consumers of diesel fuel and they pay a tax on that, that that tax is hypothecated to meet the needs of road maintenance and is not hypothecated to meet the needs of rail maintenance, and that the national rail track is in need of upgrading and repair. Kalgoorlie is a major railhead for the east-west line. Do you have any idea what proportion of freight that is brought to this centre is brought by rail as compared to road?

Mayor Yuryevich—No, I am afraid not. The development commission would have that sort of detail.

CHAIR—I will ask the questions of them.

Senator CHAPMAN—On the matter that Senator Cook raised regarding the differential price of various goods, do you agree that it is the cost of transport that mainly contributes to that variation between regional centres and capital cities?

Mayor Yuryevich—It is the cost of transport. It is also the cost of labour here. For people to be enticed, if you like, to live in regional Australia, in Kalgoorlie-Boulder, high rates of wages are paid. That applies for business as well, not only for people digging holes finding gold around here. As in any business, you take all your costs on board, then you work out what your overheads are and charge accordingly.

Senator CHAPMAN—But a number of those costs would in fact reduce because they are business input costs which would no longer suffer the penalty of wholesale sales tax.

Mayor Yuryevich—Certainly not as far as lettuces are concerned, because there is no wholesale sales tax there.

Senator CHAPMAN—No, I mean in terms of input, in terms of producing the lettuce, the transport cost of the lettuce. Everything that goes into the lettuce getting to its final point of sale has significant wholesale sales tax embedded into its input costs—the cost of producing, of transport.

Mayor Yuryevich—I will take your word for it, but obviously the sales tax—

Senator CHAPMAN—The cost of transport, the cost of producing the lettuce on farm, all of those input costs have various degrees of wholesale sales tax. All I am putting to you is that, after you take all that into account, it will not be the simple sum Senator Cook put to you of \$1 in Perth and \$2 here; it might be \$1 and \$1.20 or something like that.

Mayor Yuryevich—Okay, I take that point. Have you worked that out?

Senator CHAPMAN—I have not worked out the specific details of that, no. The major question I wanted to ask is about the production of the Kalgoorlie region, being in the main, I suppose, gold and other minerals and some degree of rural production. Would almost all of that be exported?

Mayor Yuryevich—As I understand it, yes. There is the nickel, the gold—we have the biggest producing goldmine here. That is half-owned by Normandy Poseidon and Homestake of America.

Senator CHAPMAN—So the significant benefits that have been identified for export earners with the tax reform package, particularly the abolition of wholesale sales tax, and the substitution with the GST, which does not apply to exports, would be of benefit to the productive capacity of this region?

Mayor Yuryevich—If, in fact, wholesale sales tax applies to gold and nickel sales, yes. We do not have manufactured goods here.

CHAIR—How is the gold price going?

Mayor Yuryevich—Not very good—about \$US285, I think. Actually, if you could work it in here somewhere to keep the gold price above \$US300, we would be happy.

Senator CHAPMAN—I was reading yesterday that the demand for gold has never been higher—

CHAIR—The gold price is down around your socks, Senator Chapman.

Senator CHAPMAN—but the price is not reflecting that at the moment. That makes it even more important those input costs have those taxes removed, I would have thought, to get the cost of production as low as possible.

Mayor Yuryevich—But at present the gold industry is exempt from sales tax.

Senator CHAPMAN—Directly. But, again, when you talk about transport and all of those other factors that go into the final product, there is a lot of tax built in there—invisible taxes, hidden taxes that are not seen—that will be removed. That will be of benefit in terms of the final cost of production and export.

Mayor Yuryevich—I look forward to that.

Senator SHERRY—You sound sceptical.

Mayor Yuryevich—I am.

Senator CHAPMAN—If we can accept that is the case, that would certainly help improve the prosperity of this region, wouldn't it?

Mayor Yuryevich—Yes, it would perhaps bring on mines there are very close to opening or closing, whichever way—whether they continue or not. So, yes, if that is the case.

Senator CHAPMAN—More jobs then?

Mayor Yuryevich—More jobs, yes.

CHAIR—Can I just follow that up. Let us get the whole story out. Treasury advised this committee in their submission that, as a consequence of those changes referred to by Senator Chapman, the exchange rate will increase by 3.5 per cent, meaning that commodities sold in Australian dollar terms will be more expensive to foreign buyers than they are now. Am I right that the world gold supply overhangs demand, that we are price takers not price setters?

Mayor Yuryevich—I think you are right.

CHAIR—I think that is true of all minerals at the present time and of just about every item of agricultural production as well, like wheat, wool, beef, sheep meat and on you go. Commodities are in abundance and prices are down—that is the basic complaint. If the dollar goes up in value, we are less competitive with other suppliers, so it does not automatically follow that the gains that the government boasts of in exports are in fact going to be realised.

Mayor Yuryevich—That could well be the case, too.

Senator GEORGE CAMPBELL—It is also worth making the point that in modelling undertaken for the Australian Automobile Association by the government's preferred modeller, Mr Chris Murphy, he demonstrated that the savings on transport charges were negligible in terms of the application of a GST—between .03 and .06 per cent, I think.

Senator MURRAY—Mayor, returning to your core business, which is the provision of services, I am interested in the point you have made that a GST must not be imposed on statutory services or law enforcement. The government senators have made the point that you are GST free, so you can rebate GST inputs, if you like. But there is also the question of whether you would be obliged to put GST on those services. Let us deal with that. Would you like to see the Senate put an amendment in which said that for any statutory service laid upon you by either the state or the federal government you would be obliged not to apply a GST?

Mayor Yuryevich—We would absolutely welcome that, yes.

Senator MURRAY—So a straightforward amendment like that would meet—

Mayor Yuryevich—Yes.

Senator MURRAY—And that is not in the legislation at present, is it?

Mayor Yuryevich—No it is not.

CHAIR—Sorry, I missed that. What straightforward amendment?

Senator MURRAY—It is an important issue the mayor has illustrated. What he has said is that there are statutory obligations placed upon them by federal and state governments which he has no power to ignore; which in fact he has an obligation to apply.

He has also said that his understanding of the legislation is that there is no provision in that legislation exempting him from applying a GST to services which are obligated to him, and a simple amendment such that he would not be obliged to put a GST on those services would meet that need.

CHAIR—I do not think there are any further questions. Thank you, Mr Mayor, for your attendance this morning, for your assistance to the committee and for your submission. We look forward to receiving—and hopefully we are not putting too onerous a request to you—further information. On behalf of the committee, the secretariat and the Senate can I thank you for making available to us this exquisite chamber, being surrounded by ghosts and photos of ghosts of the past. The history is palpable and lends an extra gravity to our considerations. Thank you very much.

Mayor Yuryevich—Thank you.

Proceedings suspended from 10.36 a.m. to 10.56 a.m.

GILBERT, Mr Ernest Martin, Vice-President and Minutes Secretary, Goldfields Aged Pensioners Welfare Association

TINETTI, Mr John Henry, Secretary-Treasurer, Goldfields Aged Welfare Association

CHAIR—I welcome Mr Gilbert and Mr Tinetti. Thank you for agreeing to alter the hour of your appearance. You were slated to appear this afternoon, but we have brought you forward to fill a gap in our program this morning. We are obliged to you for accommodating our needs. Thank you very much.

The normal procedure is for us to invite you, if you wish, to address the committee by giving an overview of your submission and then be available to answer questions from the committee. I have both of your names in front of me, but I am not sure which one of you I should acknowledge to commence. Whoever that is, would you please start and introduce your colleague to the committee.

Mr Tinetti—Thank you for giving us the opportunity to come here. I have not got a very big submission. With your permission I would like to go through it again. There are not many highlights and it will not take very long.

Having worked with aged pensioners for the past 45 years, I am fully aware of their increasing costs, especially in home maintenance, which is the reason for so many going into retirement villages or single unit accommodation, either as owners or tenants. Four years ago my wife and I sold our home and bought a unit in a block of eight strata title units because of the cost of maintaining an old home and my inability to do many of the outside chores I had always done. Each resident in our block pays \$53.40 a month in strata fees to cover building, insurance, a gardener, reticulation and management fees. With the GST, each tenant will pay an additional \$5.34 per month.

Rents are supposed to be exempt from GST, but Homeswest have stated they will abide by their policy of taking 25 per cent of income as rent. This means a single pensioner on \$180 per week will pay an extra \$1.80 out of the proposed four per cent pension increase of \$7.20, leaving \$5.40 to pay for all other increases by the GST. Other state housing authorities have made similar statements.

The GST is discriminatory and it will impact more on people in the remote areas where costs are higher. For example, in Kalgoorlie-Boulder, a carton of milk can cost up to 50c more at a corner store than at the supermarket. Country towns, therefore, with no supermarket pay top prices at all times, to which the GST will be added. These costs will further increase when the GST is added to transport costs. This also impacts greatly on older people as they frequently do not have a vehicle or access to public transport in country areas and are forced to pay the higher price for perishable goods from corner stores.

The cost of fuel into the bowser will not be as low as the government states after removal of the excise as the GST will be added to the cost of all phases of the refining process, including the materials used, labour, power, water, et cetera. There will then be a GST on transportation to bulk depots, especially to country areas, and then on transport to

retailers. Once the retailer adds a GST to his selling price, how much cheaper will fuel actually be?

The proposal to give all GST revenue to the states is a recipe for disaster, which will lead to increased rates of tax. Under our present system, all income tax goes to the Commonwealth, which decides on an allocation to each state at the annual Premiers Conference—and the amount is never enough. Therefore, supplementary grants are applied for, but not always successfully. Under the proposed GST system, the rate can only be increased if all the states and the Commonwealth agree. What happens? The states make grandiose plans to spend all the extra revenue and soon find that there is not enough money as all government projects have budget blow-outs. The state Premiers then get together and pressure the Commonwealth to raise the GST. If this occurs and the Commonwealth is unable or unwilling to afford a compensatory income tax cut or subsidy for pensioners or other low income earners, we pensioners and low income earners will bear the increased cost.

Consider the New Zealand example. In 1986, a 10 per cent GST with rises in social security payments and tax cuts for low income earners was introduced. In 1988, owing to budget shortfalls, the GST went up to 12.5 per cent with no increase in compensation. In 1990, for the same reason, social security payments were cut by five to 30 per cent, thus eliminating previous GST compensation to lower income earners. The Commonwealth can also increase state expenditure by handing over more of their responsibilities to the states as they have already done with dental care.

I have kept this submission short as I feel sure others will have expressed the same concerns as I have. As I said at the beginning, I have had 45 years experience with the increasing financial burden of low income earners, especially over the past seven years as property manager of 22 seniors units. I have seen maintenance costs rise and wondered how our tenants would manage if they had to pay these costs which will be even higher when the GST is added to services. For instance, to get a tap washer replaced costs \$45, of which \$42 is for labour—a GST will be added to that labour.

The proposal to put a GST on building materials will also impede our efforts to further expand our villages. At the present time we have land and we plan to build another village, hopefully this year. In future years, that could be jeopardised by the increased costs as it is very hard to raise money at the present time.

I have only cited the cost of milk, but in the *West Australian* on Monday, 22 February Jeffrey Petchey, economics and finance lecturer at Curtin University of Technology, calls for a lower rate of GST in regional areas because of transport costs and lack of competition. He gives the example of a loaf of bread which will rise by 15c in the city and 20c in the remote areas.

In conclusion, I oppose the introduction of the GST as proposed by the Commonwealth government because of the detrimental effects it will have on pensioners and low income earners, especially in country areas, and because of the inadequate compensation the government is offering.

CHAIR—Thank you, Mr Tinetti. Is it your wish that Mr Gilbert be invited to supplement your remarks?

Mr Tinetti—If Ernie has something to add.

Mr Gilbert—It is only that I have points here that I would like to elaborate on as far as some of the submission that Jack has put in. Regarding the rent where the federal government says there will be no rise in the rents, how can it say that when there is going to be 10 per cent on the maintenance, the rates and everything else? You cannot pinpoint it and say, 'No, there won't be a rise in that.' It might be able to pin the Homeswest rent down for five or six months, but it will go up the same as everything else. It was interesting to notice the other day on a TV program that there were a few questions thrown about the GST over in New Zealand. It was a rather selective audience that was spoken to. There were no aged people or anything like that, just a few general run-of-the-mill businessmen or some people like that that tax generally tends to favour.

I have been a pay-as-you-earn taxpayer all my life—I retired from work in 1994—and since getting out I have scouted around a bit. I am satisfied, after seeing some of the rorts that go on around the place with the taxation system that is now in, that all my working life I was one of the few that ever paid regular tax. If the rorts were held down and those who are avoiding tax so often, such as even the small businessman claiming his housekeeper through his business and things like that—that is all tax cheating. Pay-as-you-earn pays for all that. If that was eradicated, I think the tax as it is now would go a lot further.

Jack talked about public transport. Any service that the aged is going to have to use is going to have an extra 10 per cent on it, not just transport. With fuel, as Jack said about the extra 10 per cent there, if an item is looked at or handled half a dozen times before the consumer gets it, it is going to have 10 per cent on it each time.

Senator GIBSON—It is not a cascading tax, Mr Gilbert.

Senator CHAPMAN—That is the whole point of this tax: it does not cascade, unlike the wholesale sales tax. This is refunded at each stage of handling.

Mr Gilbert—Like the wholesaler when he sells to the retailer—

Senator GIBSON—He gets it back. He gets refunded whatever he has paid. The only person who pays it is the end person, the consumer.

CHAIR—We would like to refer to services as being untaxed.

Mr Gilbert—In principle, it sounds all right; whether it comes in practice is another thing. With taxation as it is now, you get a zone allowance. With the pensions, if there was a zone allowance payable to pensioners for the isolation that they live in, it would possibly cover some of the GST that they are paying for because of the isolation. That might be another way out, but I cannot really see that.

The government say we have a democracy in Australia. I do not think they looked at the true meaning of the word 'democracy'. Yes, they are democratically elected, but they are supposed to treat everyone the same and try to do the best for everyone, not just for businessmen, the big boys and things like that. I think they should have a look at that rather than pick on the battler. I cannot see that we are all going to be better off once GST comes in. It has been bandied around, 'You'll be better off; you'll pay less tax.' No government—I do not care what breed of government it is—is going to reduce tax and do with less.

Senator GIBSON—We can.

Mr Gilbert—If you believe that, you believe in the tooth fairy. Jack did quote that it costs \$45 to have a tap washer fixed. That is in an emergency, which quite often happens to a pensioner. If we get the plumber in, we might get him to do three or four things—it did happen to us the other day.

With these units we find there are a lot of costs going up and up all the time. As a matter of fact, Jack and I spoke about it the other day; we are getting to the stage where I think we should give it away and give it to someone else, but that is to be seen. Other than that, I would like to thank you gentlemen for listening to us and hope some good comes of that.

CHAIR—Thank you, Mr Gilbert and Mr Tinetti. We will now turn to questions from the committee.

Senator GIBSON—Thank you for coming before us. The first point to make is to make sure you understand that the GST is not a cascading tax. Both of you talked about the cost of fuel from a refinery, plus transport, plus a distributor, plus the retailer. In each step in that chain, the person paying GST from one step to the other gets that refunded. Anyone in the business chain gets the full GST refunded, so no-one in that business chain pays the tax. The only one who pays the tax is the final consumer.

There was also a point raised on the GST on rates. There is no GST on rates for local government; that is not so. Another point you made was with regard to locking in the agreement to the level of GST between the Commonwealth and the states. As you know, what the Commonwealth is proposing is to do that in legislation with agreements from each of the states and territories. For that to be changed, you will have to have all the states and territories acting in unison—just one not agreeing will mean that it cannot be changed—plus the Commonwealth parliament, including the Senate, agreeing to the change. It is very rare for governments of a similar persuasion to be in power all around Australia in each of the states and territories at the one time. To then persuade them and the Commonwealth parliament, both the House of Representatives and the Senate, to go along is virtually impossible as a practical outcome. Do you agree with that?

Mr Tinetti—I do not know. Irrespective of their political persuasion, the Premiers all agree at the annual Premiers Conference to put pressure on the Commonwealth government to get more money and I think, if the states are short of money, they will get together and put that same pressure on.

Senator GIBSON—That is true, that certainly happened at every Premiers Conference in the past. The key point about this tax reform program is that the states, for the first time ever, will have a growth tax and get rid of 10 indirect taxes. They will have a tax which will grow with the economy. The Premiers Conference will basically become irrelevant.

Mr Gilbert—This is where we get back to where we pay less tax and all be better off?

Senator GIBSON—Can I quote you some facts. The Commonwealth government four years ago, when Labor were in power, actually withdrew 27 per cent of GDP as taxes and charges from the Australian community. The revenue collected by the Commonwealth government was 27 per cent of the total economy. Today, that is down to just under 25 per cent, and the forward projections for the next financial year show it will be down to 24 per cent. In fact, over the last three years there has been a significant shift of money back from the Commonwealth government into people's pockets in real terms. Those are the facts of the aggregate numbers.

Mr Tinetti—They are only percentages. Gross national product is increasing all the time. If you are getting 25 per cent of last year's gross national product and you are getting 24 per cent of this year's, you are breaking even or a little in front. The economy is increasing all the time.

Mr Gilbert—It is amazing what you can do with figures, Jack.

Senator CHAPMAN—What they are retaining in their pockets in real terms is greater.

Senator GIBSON—Mr Chairman, can I—

CHAIR—A final question.

Senator GIBSON—There have not been too many questions.

CHAIR—I sat here and allowed the discussion.

Senator GIBSON—Our guests have raised matters of fact.

CHAIR—I allowed a degree of informality.

Senator GIBSON—Yes, indeed. You raised transport costs. One of the advantages of the tax reform program is that transport costs are going to go down substantially. The Treasury document provides estimates that across the whole economy road transport costs are going to go down by 6.7 per cent, but two weeks ago, before this committee, the Road Transport Forum, which represents the big trucking firms and truck drivers, said that costs associated with transport are going to go down between 15 and 19 per cent. In places like the goldfields where a very high proportion of everything coming in and going out goes by road, the costs of getting it in here will go down significantly.

Mr Gilbert—It might be similar to the price of petrol when oil was about \$25 per barrel, which is roughly about the same cents per litre, and now it is down to about \$11 per barrel and petrol has dropped slightly. It has dropped nothing in comparison with the rise.

Senator GIBSON—Governments take more excise, Mr Gilbert.

Mr Tinetti—I was working for the railways when standardisation came in. The cost of transferring goods from narrow gauge to broad gauge or standard gauge was terrific. I worked as yard foreman and goods foreman out at Parkeston and on some days we used to have up to 200 men just transferring goods from one truck to another. When standardisation went through, that must have cut costs. I do not recall the cost of living going down. Somebody absorbed those extra profits and the people who were getting the stuff brought across, the big wholesalers, hung on to those extra savings. Nothing went down when standardisation came in and it must have saved millions in transport costs. Port Pirie was bigger than Parkeston in transfer and then it had to be done again in Melbourne for it to be sent through to Sydney and Brisbane. Stuff was transferred at least three times between Perth and the eastern states and nothing went down in price when standardisation came in. They just do not pass on the costs.

Senator CHAPMAN—On that point, do you know whether the freight rates went down?

Mr Gilbert—No, the freight rates did not go down. I was an employee.

Senator CHAPMAN—So the government absorbed the savings, not the businesses.

Mr Gilbert—Possibly, yes. The government do a lot of funny things when you are looking from the outside.

Senator CHAPMAN—Mr Tinetti, I note in your submission that you say:

. . . Homeswest have stated they will abide by their policy of taking 25% of income as rent.

You then say:

Other State Housing Authorities have made similar statements.

I am just wondering what your source of that information was.

Mr Tinetti—The *West Australian* and the ABC News.

Senator CHAPMAN—The South Australian government have explicitly stated that they will not be taking the 25 per cent of the compensation component that is provided for low income earners in relation to South Australian Housing Trust accommodation. Are you aware of that?

Mr Tinetti—No, I was not aware of South Australia saying they were not going to, but I know other states have said they have.

Senator CHAPMAN—Certainly South Australia has made that commitment quite clear.

Mr Tinetti—What would be the ratio of government rented properties to privately owned properties and who is going to peg them?

Senator CHAPMAN—As I understand it, it is in relation to State Housing Authority properties that that 25 per cent rule applies. The private rental market sets its own rates.

Mr Gilbert—And that will set its own rates by the extra 10 per cent of maintenance.

Senator CHAPMAN—And that is GST free. Commercial home rents are GST free.

Mr Gilbert—All right, they are GST free for the present, but when it costs 10 per cent more to maintain that home throughout the year who is going to start setting the rents then—the government or the owner of the house?

Senator CHAPMAN—Why will it cost 10 per cent more to maintain the house?

Mr Gilbert—Because everything is going to cost 10 per cent more—labour, consumables.

Senator CHAPMAN—Why is that?

Mr Gilbert—Because of the GST.

Senator CHAPMAN—What about the embedded taxes, hidden taxes, that are being removed before the GST is applied?

Mr Gilbert—Are you going to take away the sales tax? That is in one place.

Senator CHAPMAN—Reduce fuel taxes and the rest of it that go into the cost of goods and services currently.

CHAIR—There will be costs of labour. I am entering the debate; I should not do that.

Senator MURRAY—The fact is, is it not, that the government recognised that costs were going up? That is why they plan to increase the pension and the compensation through tax cuts. In your view, from what you know about the increase in the pension and the tax cuts that are proposed—and I recognise that you are not statisticians or economists—is what the government has offered going to be sufficient to meet the needs of people living in rural and regional Australia with the particular basket of expenditure that you have? Is what you are being offered by the government in compensation for the GST change sufficient, in your view?

Mr Gilbert—No. That is why I have brought up the zone allowance as well. The city people are going to get the same amount of increases in their pensions. Those in the country are going to be pegged back. There should be a zone allowance for country dwellers. We look after the aged pensioners who, as far as we are concerned, are the pioneers of the

goldfields. They have elected to stop and not go off to the city, having been here all their lives.

Senator MURRAY—Just for the record, the aged pensioners do not include self-funded retirees—or do they?

Mr Gilbert—No, an aged pensioner is just an aged pensioner.

Senator MURRAY—How many of them are there in this association?

Mr Gilbert—Our association is only a small committee. There are only eight of us, but we assist any aged pensioner who comes to us.

Senator MURRAY—In arriving at the views that you have expressed to us, you have been talking to numerous sets of people to arrive at a—

Mr Tinetti—That is right, we contact quite a few. Twice a year we hand out subsidies here in Kalgoorlie—for winter fuel and for rates—and we take them on holidays and we talk with them. We also know from our own experience. I will be 79 this year and I am on the aged pension. I know how hard it is. To answer your question, I do not think the four per cent rise will cover it.

Senator MURRAY—What you seem to be expressing to me, from the point of view of those people you have discussed these matters with, is that there is a great deal of fear, uncertainty and scepticism—fear and uncertainty about the benefits and the compensation and scepticism that all the benefits are in fact going to merge from your point of view and from the pensioner's point of view?

Mr Tinetti—They say wage earners are going to get a reduction in tax. We do not get wages; we only get the pension and we are going to get a four per cent rise.

Senator MURRAY—If we go through the important things in a typical basket of expenditure that your pensioners would have, if there were lower fuel costs—and I put the word 'if'—resulting, that would benefit your members?

Mr Gilbert—It would be very selective, I think. Everyone has different costs. Medical is a big thing with the aged. It is not until you reach 60 that you realise how much your health—

Senator MURRAY—So making health GST free is a popular decision?

Mr Gilbert—Yes, but there are still other costs involved with it. Yes, you might get free doctors and free medicine, but you have to get to the doctor. For example, yesterday I had to go down to Perth and back because of hearing aids—\$200 air fare down and back. There are different costs involved with different ailments.

Senator MURRAY—What I am looking for is this: if the Senate and the government can make more certain what is GST free and what is not—such as local government rates,

such as rents, such as health—that is of assistance to the pensioners as a whole, isn't it? What about food? Would you like to see food taxed?

Mr Tinetti—No, I would not.

Senator MURRAY—So you would support having food GST free?

Mr Tinetti—Yes.

Senator MURRAY—Would your pensioners support food being GST free?

Mr Tinetti—Yes.

Senator MURRAY—Is that the view of the community as a whole, do you believe?

Mr Tinetti—Everyone I talk to says that they are going to have an extra food bill.

Senator MURRAY—The statisticians tell us that food is around about 35 per cent of the basket of expenditure of a low income person, pensioners and so on. Is it a very substantial portion of the average person's basket of expenditure?

Mr Tinetti—Yes.

Senator MURRAY—So to be GST free would be of great assistance?

Mr Tinetti—It would be of great assistance.

Senator MURRAY—If that made it a little more complex for business to administer the GST, would you think that the benefits to the community would be greater than the advantage of business having a slightly more complex administrative system?

Mr Tinetti—My personal view is that the GST should not come in at all. I realise how much more complicated it is going to be for businesses if you exempt food, especially businesses that sell more than food. It is going to be complex.

Senator MURRAY—The reason I ask you this question is that business is saying to us that, if you weigh up the interests of a simple system versus the benefits to ordinary people, we put our backing behind a simple system. If it is fairer and cheaper and more popular with the community to not tax food versus the business desire for an easy life, where do you stand on that issue? Do you think business should have their way?

Mr Gilbert—That is where we come back to democracy. It should be the best for everyone. Why select a group? Why select the pensioners? Why select business?

Senator MURRAY—Because we have to make a choice. As the Senate, we have to make a series of choices.

Mr Gilbert—My choice would be for it not to be on food. Your own judgment, your wife's or anyone's can soon tell you how much out of the housekeeping food costs.

Senator SHERRY—There is an old saying: lies, damn lies and statistics. I was reflecting earlier on the conversation—not so much questions—that you had with Senator Gibson. Looking through the revenue statistics—in 1990-91, 25.8 per cent of GDP; 1991-92, 24 per cent; and 1999-93, 23.3 per cent—there is not a lot of difference between the forward estimates, certainly up to 1999, this year, and in the past it goes up and down slightly by one to 1.5 or two per cent, and roughly follows the economic cycle.

Mr Gilbert—It depends on which government it is too—whether they are in power or in opposition. One will produce one set of figures and then next week in the paper you will see another set of figures.

Senator SHERRY—You had a debate or discussion about fuel costs. I do not know if you have had a look at this document where it says on page 172 that the end price effect on road transport of the indirect taxation reform, for instance, with a GST, is an increase in road transport costs of 2.6 per cent, and for rail, pipeline and other transport an increase in costs of 5.8 per cent. I understand from what you were saying that you are arguing that in rural and regional areas these increased costs will magnify the costs of things such as food and other articles that you would have to buy compared to the city.

Mr Gilbert—All you need to do is run a motor vehicle in the city and run a motor vehicle in the country to see the difference in prices—not only on fuel but on service and everything.

Senator SHERRY—Mr Tinetti, you said earlier that you were managing some units?

Mr Tinetti—Yes, 22.

Senator SHERRY—Are these for pensioners?

Mr Tinetti—Yes.

Senator SHERRY—Do you make a service charge for maintenance, gardening, cleaning—those sorts of things?

Mr Tinetti—No.

Senator SHERRY—How do you cover the costs of those services?

Mr Tinetti—We have a flat rate of \$45 a week, which is 25 per cent of the single pension. We are in association with Homeswest, and they put the majority of the money in and our association does all the administration work with me as secretary-treasurer. I do all that work on a voluntary basis.

Senator SHERRY—That is funded by the state government, is it?

Mr Tinetti—Homeswest is the relevant government body. As I say, we make no extra changes; all costs are taken out of the rent.

Senator SHERRY—There is the cost of servicing. There is an argument about rates, but gardening, cleaning, maintenance, painting, plumbing and electrical will attract the 10 per cent, whether or not there will be reductions as a result of the wholesale sale tax. Do you think that people are going to put their prices down? The day the GST starts, do you think the people that provide these services, where there is wholesale sales tax, will put down the price of the articles they install?

Mr Tinetti—The maintenance we get done is for small items, like putting a washer in a tap. They charge you \$3 for the washer, and you could go and buy it yourself at the hardware store for \$1.50. They charge you \$42 to put it in, so it is \$45 to get a washer done. How much can they reduce the price of a washer?

Senator SHERRY—So even if the price of the washer goes down by whatever the wholesale sales tax is, the fact is that the vast proportion of the cost is the installation cost, not the article itself.

Mr Tinetti—And they can put GST on their service.

Senator SHERRY—You have mentioned that you are going to build some more units. Housing prices will go up, there is no doubt about that: if you look in the government's ANTS package, the cost of construction of new houses, dwellings, goes up. There is to be a compensation repayment to new home owners. I think it is \$7,000 a year. Do you know if you will be eligible for that when you are building units for the elderly in future?

Mr Tinetti—No we will not because, as I said, most of the money comes from Homeswest. Our proportion is very small. We have managed to get hold of three good areas of land; we have used two of them, and one of them is still to be built on, so that is part of our contribution. We had that land given to us by the city council. That is a part of our costs; it saves us putting the actual money in.

Senator SHERRY—For that reason, we are told—and it is a fact—rents will go up as a consequence, though not by 10 per cent. Because the construction cost is higher, therefore inevitably there will be an increase in rents beyond what it would otherwise have been.

Mr Tinetti—The thing is that if these houses cost Homeswest more to build, they cannot put the rent up unless the pension goes up, because they are bound to only charge 25 per cent. Therefore, they might be reluctant to build more cheap housing for seniors.

Senator SHERRY—That was the next point I was going to get to. I noticed Senator Chapman appeared to jump with glee at the fact that the rent cannot go up, but something has got to give, hasn't it? If you cannot get the income to cover the increased costs, then inevitably there are going to be less houses built or the quality—

Senator CHAPMAN—The state government will have more revenue from the GST.

Senator SHERRY—Well, we will see if they spend it in that area.

CHAIR—Not in the case of Western Australia.

Mr Gilbert—No businessman is going to leave his rent down low when it costs more to maintain the house than what he is getting back in rent. He would be in the asylum in a week.

Senator SHERRY—Do you know if there are many pensioners who rent privately in Kalgoorlie?

Mr Tinetti—There are quite a few that we take in. At the present time I have got 12 on our waiting list for units and most of them are renting privately and paying big rents. Rents are shocking in Kalgoorlie.

CHAIR—I have a couple of concluding questions. No-one has actually put this to you, and I thought some of my colleagues on this committee might have done so. You have raised objections to the proposed tax that the government is describing as tax reform. Are you asking for this committee to recommend changes to it that we would then pass on to the Senate or are you telling this committee that you are opposed to it and it should be taken back to the drawing board and re-examined? Which of those two is the appropriate description of your position?

Mr Tinetti—I am opposed to the whole concept of a GST.

CHAIR—Is that the association's view?

Mr Gilbert—Likewise, I am opposed to it. I think if the government was to put as much effort into supervising the taxation system that we now have as they are putting into organising this one, and if they caught up with some of those tax cheats, we would be better off with the old system. When you see what Mr Kerry Packer pays for his taxation and things like that—

CHAIR—Okay. Please correct any of the comments I make here. I am trying to summarise what I think you said to us in order that I can report accurately to the Senate. If I misrepresent you, you should stop me and correct me. My understanding is that you are saying that there is a number of consequences that have not been properly tabulated that mean the costs on pensioners are higher than what you are being led to believe.

Mr Gilbert—That is the way we see it.

Mr Tinetti—No-one will ever believe that the government can run the country on less money next year than what they are running it on this year. Working people have been fooled that they are going to get a tax cut but they will pay it out in GST, because the government revenue will increase.

CHAIR—Again, correct me if I misrepresent you. My understanding from what you have put is that the reason you believe that there will be higher costs or hidden costs is that

pensioners are large consumers of services—they do not do a range of things for themselves much any more; they require people to come and help them—and a goods and services tax introduces new taxes on services that are not adequately compensated for by a reduction in wholesales sales tax to the extent that that applies to goods. Is that right?

Mr Tinetti—That is entirely correct.

Mr Gilbert—You compare the price of building a house in Kalgoorlie, which should work out at about \$120,000, with the price of getting the same house built in Perth, which is about \$80,000. The freight and handling of stuff to come up this way is unreal.

CHAIR—There are no further questions for you. On behalf of the committee I thank you for appearing before us today and aiding us in our inquiry. Thank you, Mr Tinetti and Mr Gilbert.

[11.38 a.m.]

CIANTAR, Mr Raymond, Acting Chief Executive Officer, Goldfields Esperance Development Commission

FINLAYSON, Mrs Kathleen Margaret, Chairman, Goldfields Esperance Development Commission

CHAIR—Welcome. I invite you to make your submission to us briefly and then you will be asked questions.

Mrs Finlayson—Thank you. I will be speaking on behalf of the commission, which has discussed these issues at board level. You will no doubt see that a lot of these issues that come up have also been put in a submission from the Regional Development Council of Western Australia, which is the nine development commission chairs who are the peer advisory group and body that relates to the minister. The main thrust of our presentation to you is the fact that we believe that we produce an awful lot of the nation's wealth and in some ways we are penalised in the taxation system.

We totally support the fact that there needs to be a complete revamp of the taxation system to become fairer and more equitable, particularly for people living in regional Australia and regional Western Australia. I guess the main issues that we have of concern are the level of zone rebates within regional WA; the changes to the diesel fuel rebate; the fringe benefits tax on mining tenements and also small business out in areas that will probably come under the thing—when they actually supply housing as an incentive to get people to work in small business they will be penalised—the payroll tax on jobs; and just the general impact of the GST on the region.

Basically, the zone rebates for PAYE taxpayers have not changed since 1993, which is really in value a decline of about 11 per cent. Most residents within the Goldfields-Esperance region are classed as zone B residents and just get a zone allowance of \$57. This compares to zone A, which is in Broome, which gets \$338, and residents in special areas such as Kununurra get \$1,173. Increased zone allowances for places of remote employment in the region we feel will help us to enlarge our residential population and our capital base.

As to the diesel fuel rebate changes, fuel excise duty is levied at about 35c per litre on diesel fuel. Even with the diesel fuel rebate scheme, the excise represents a large input cost on businesses, particularly in regional WA. As you would be aware, the mining industry relies heavily on diesel fuel and probably more so than any other state in Australia. I think that the Western Australian regions consume as much diesel as the whole of Victoria. Many of the future projects that we have, of course, are very contingent on using diesel fuel for their fuel power generation. I think, also, if there was a reduction in the cost of diesel, it would be advantageous in reducing capital and operating costs for the mining industry, which would then encourage greater growth within that industry. Also, if we could lower the diesel fuel costs, that would make a competitive edge for the gas pipeline to actually have to reduce their tariffs, and we have seen a reduction in the last couple of weeks, but of course we would like to see more.

With the fringe benefits tax on mining settlements, we see that as one of the biggest disincentives to actually creating mining settlements. It has been fairly obvious—and no-one can blame the mining industry and certainly does not—that since the introduction of FBT most mining companies have gone to fly-in fly-out, which of course impacts not only on the economic drive within the region but also on the amount of money that is actually earned in the region but spent outside the region because people fly-in fly-out of capital cities and the money that they earn is not spent within this region.

Often, too, we are trying to create what we see as a family orientated place to live in the Goldfields-Esperance region. From a survey that we have just done called 'Living in the regions', the general feeling of people is, 'Go out there to earn the buck and then leave.' We want to see more incentives to actually keep people out here.

With payroll tax, in 1996-97 payroll tax raised an estimated \$682 million of the \$1.3 billion in state taxes and licences levied on business by the Western Australian government. Payroll tax acts as a much greater disincentive in the Goldfields-Esperance region due to the higher tax burden that is faced by workers in the region. It also encourages firms to have work practices that encourage capital over labour.

I guess the main impact of the GST on the regions as we see it, and one of the main advantages of the GST for the region, is the zero rating of business inputs. With exports being zero rated, exporters in the region would become more internationally competitive with a likely increase in output, and hopefully employment, in the long run. The removal of the sales tax and fuel excise concurrent with the introduction of the GST would go some way to meeting the concerns of regional businesses of reducing the costs of business inputs.

The impact of the GST on transport costs may not be neutral for residents of this region. The imposition of the GST on transport services could still see the costs of goods transported to our region being at a higher price than for the same goods that are purchased in the metropolitan area. This, I think, is really of particular concern to remote and isolated communities.

Most of the transport companies that we have spoken to in the region are really running on the thin edge of the wire. I believe that even with the reduction, if they get a reduction in diesel fuel, I cannot see them passing on that reduction at any one time directly because they have been under the hammer for so long to remain competitive. We feel that one means of compensating for this would be increasing the zone rebates for each individual taxpayer in regional areas.

A couple of other things that were brought up included the effect on regional and remote power issues, particularly in Western Australia where we have 29 isolated power systems that are not on the grid. These systems for the state government incurred an operating loss of \$33 million in 1997-98. It has doubled in the last two years because of what we felt was the federal government's decision to increase the excise on light fuel from 6.5c a litre to 33c a litre to bring it to the same rate as diesel fuel. This decision of course increased power generation costs by 8c per kilowatt hour, and fuel represents about 40 per cent of Western Power's operating costs.

For example, the Esperance Residential College's total annual costs have increased from \$16,500 to \$39,000 for their power alone. The Esperance District Hospital's annual cost has gone up to \$186,000 a year because of the withdrawal of the R2 tariff, which is a Western Australian issue, but mainly put there because of the excise on the light fuel.

Overall, we are happy to see a restructure of the taxation system with those points that we have made. The main issues to us are diesel fuel, zone rebates, FBT and the extent of power. We feel that the Australian economy rides on the back of the regions within Australia: I will always believe that. We have not only to generate the economic production in these regions but also to try and get the population off the coastal fringes of Australia and back out living in the regions.

CHAIR—Is it your intention to ask Mr Ciantar to supplement your remarks, or shall we go straight to questions?

Mr Ciantar—I might just add, to put this debate in a broader context, that we do see this issue of a new tax regime as quite a dilemma for our region. On the one hand, we have primary industries that are major export earners for this country and any new initiatives that will assist them to be internationally competitive are to be welcomed. On the other hand, we do need a tax system that does encourage job growth. These industries I have mentioned have been tending to shed labour because they have needed to maintain international competitiveness. We do need, by way of population, a core of rural and remote Australians. We need the jobs to go with that. On the one hand, we need to shed jobs in the short to immediate; maybe in the long term we will create more jobs in the primary industries. On the other hand, we are losing significant populations and critical masses from the various communities.

How your committee comes up with solutions to those things, I do not know, but obviously it is quite an important challenge. Basically, it is a very vexed question for us in the regions.

CHAIR—I took your remarks as saying broadly that you support the government's package, but you have a series of concerns which you proceeded to list for us about the package as it stands. Are you putting to us, as a Senate committee, that we should advise the Senate that your view is that these changes should be made to the package, or are you putting to us that these are matters you are putting to the federal government and, if they choose not to make them, you still support the package and do not ask the Senate to proceed with those changes?

Mrs Finlayson—Our position would be to ask the Senate to try and get the changes first. I see the items we have put as an enormous part of the tax package as it stands. I guess it is a case of having your cake and wanting to eat it too, in that big taxation dollars are paid out in these regional areas because people work long hours and get some sort of minor incentive for working out there. I believe it is more asking the Senate to make the changes rather than—

CHAIR—I just get to ask some of the hard questions, that is all, but we have to vote on this and we have to be clear about what it is you are asking us to do.

Senator CHAPMAN—Will it affect your vote?

CHAIR—We have not had a final decision about where my vote might go yet.

Senator GIBSON—Mr Beazley has been pretty explicit.

CHAIR—I do not know that he has been explicit about my vote, but anyway—

Senator GIBSON—The party's vote anyway.

CHAIR—That is another matter. The point is, Mrs Finlayson, that our report would fairly reflect your interest if we listed, on a schedule or appendix to the report, the issues that you have referred to and said, 'You asked us to do this—' so that the Senate has before it what you want. That would be fair?

Mrs Finlayson—Yes.

CHAIR—For the moment I have no further questions. Senator Gibson.

Senator GIBSON—The first point to emphasise is the need for tax reform, for a start; and, secondly, that the tax package, as listed in this document, which is on about reforming both indirect and income taxes and also fuel taxes, is good for exports and, for an area like the goldfields, surely lower costs for exports is good for this region. I know you agree.

With regard to diesel fuel, I wonder whether we have to check our understanding of the facts there. What the government has proposed is to remove the excise of 25c a litre from diesel used in the trucking industry. The government's Treasury estimate is a 6.7 per cent reduction in trucking costs around Australia. However, two weeks ago, before this committee, the Australian Road Transport Forum, which basically represents the semitrailer owners and drivers and companies, gave evidence to suggest that they were expecting their costs to go down somewhere between 15 and 19 per cent. That is a huge difference.

They further gave evidence that they believed competition was that intense in the industry that the costs would go down. They cited the evidence of what actually happened during the Gulf War: they quoted the costs that went up when the price of fuel went up during the war and then came down immediately afterwards, and said their costs followed that precisely. The evidence they have given us was that, because it was an extremely competitive business, they would expect the costs would go down and that you would see cost reductions between 15 and 19 per cent for heavy-duty trucking.

Mrs Finlayson—That is probably to Kalgoorlie, but I do not think that will happen going out to places like Warburton and Wyngellina and those mining—

Senator GIBSON—Why is that? Isn't it as competitive going from here out to there?

Mrs Finlayson—I do not think so, because there are only about two carriers that will do it and they are smaller companies. You do not get the bigger companies, the Tolls or anyone, going out to these communities; it is done by locally based people in Kalgoorlie. As an

example, there is the cartage of wool bales which the pastoralists cannot now do by rail because the rail is completely taken up by exporting nickel ore and other things to Esperance and elsewhere.

Because the pastoral and wool industry has been in the doldrums for a while, two carriers who had a pastoral background before they went into cartage have not raised their prices on the cartage of wool bales for four years. But from this area 200 kilometres north to Perth it is still \$12.50 a bale to get it there. I cannot see them lowering the price of cartage of those wool bales because they have not raised their tariff for a long time anyway because of the industry and also because there are only two of them. The bigger trucks obviously come through with machinery, but I am talking about fuel deliveries and things like that. I think it will probably be cheaper getting it to Kalgoorlie-Boulder, but I really do not know whether that impact will go out.

Mr Ciantar—Can I add that not all our roads in the region are sealed, so the maintenance costs on these trucks tend to be rather more substantial than for those going on the Eyre Highway, for example. Their margins, they tell us, are very, very fine.

Senator GIBSON—Sure, but the fact that the wholesale sales tax of 22 per cent is coming off the price of trucks, off the price of parts, off the price of tyres, as well as the fuel excise, is surely going to make a substantial difference to the running of those trucks.

Mrs Finlayson—One would hope.

Mr Ciantar—You would think so, yes.

Senator GIBSON—I am just quoting the evidence that the Australian Road Transport Forum put before us two weeks ago. Another issue you raised with us is FBT. It is not really in our purview to look at that. That is a business tax issue which is part of the Ralph review. As you know, the third discussion paper for that review was out this week and that process is ongoing, to finish before 30 June. So that is nothing to do with what we are inquiring about.

The final point I want to raise with you, to make sure we have a clear understanding, is with regard to power generation using diesel. The diesel excise will be removed to zero for all off-road use, including power generation.

Mrs Finlayson—Light fuel oil?

Senator GIBSON—I am not certain about light fuel oil; I need to check on that.

Mrs Finlayson—Most of the isolated power generation is light fuel, not diesel.

Senator GIBSON—Is it?

Mrs Finlayson—Yes.

Senator GIBSON—I cannot be certain, but we will check on that and come back to you.

Mrs Finlayson—It got that huge whack on it; that is what sent the thing through the roof when it went from 6.5c to 33c.

Senator GIBSON—Yes, I remember that.

Mrs Finlayson—Esperance has actually changed over. Esperance port is now generating their own power; they have got right away from Western Power and have become a power generator in their own right—but with diesel, because they know that they are going to get the excise off for diesel.

Senator GIBSON—I am fairly confident that it is coming off but I cannot be precise about it. The reason I am confident about it—I come from Tasmania, as does Senator Sherry, who was here a moment ago—is because of the fuel that is used for ferries across Bass Strait. The big ship uses bunker C and the excise is coming down to zero, and the fast ferry uses light oil and it is coming down to zero too. We will check up and come back to you about that.

CHAIR—We should check that because I am not certain either. I made the assumption Mrs Finlayson was right on the basis that I had not seen anything to the contrary and that, because the government was making the change, it was explaining where it was changing and, by inference, it was not changing in this area. That was my understanding of it.

Senator GIBSON—I think it is, but let us come back to you to that and make sure we are talking about the facts rather than supposition.

Senator GEORGE CAMPBELL—Mrs Finlayson, in your submission, under the heading ‘Taxation and regional Western Australia’, you say:

. One of the main advantages of the GST for regional areas—

and I think that is the only area where you actually make a statement that there is an advantage in it—

is its zero-rating of business inputs. With exports being zero-rated—

I presume that is based on the fact that most of the production out of this region is commodities and they are virtually all exported.

Are you aware that Treasury has indicated that the implementation of this tax package will appreciate the value of the Australian dollar by about two or three cents—

CHAIR—3.5 per cent.

Senator GEORGE CAMPBELL—by 3.5 per cent and that that will have a substantial offsetting impact in terms of those commodity exports? Given that commodity prices are determined in the global market more by supply and demand than they are by the costs of production, these industries could be significantly disadvantaged by the application of this tax package.

Mr Ciantar—It is obviously something that would cause some concern in the region. Is that modelling fairly accurate? Is that being disputed?

CHAIR—That is from Treasury models.

Mr Ciantar—Right.

CHAIR—I would dispute it as being too small, but for the point of the exercise it is the modelling upon which the government based its assumptions.

Mr Ciantar—Of course then you would have to weigh up the total benefits of the GST against that. If that came to pass and we had that increase in our dollar, you would have to weigh up the net benefit. We are not privy to that sort of economic modelling, unfortunately.

Senator GEORGE CAMPBELL—The point I am making is that that is a specific disadvantage for industries in this area.

Mr Ciantar—Yes, I understand what you are saying.

Senator GEORGE CAMPBELL—The net reduction in the cost of production by the reduction of costs of inputs is not necessarily a benefit in terms of these industries because commodity prices are determined by supply and demand, rather than by cost of production. In fact, commodity prices have been falling in global terms in recent years.

Mr Ciantar—But you cannot ignore the cost of production because obviously, with the low price of nickel and gold, we have got people hanging in there because they have been able to reduce their production costs. So that is not irrelevant to this argument, Senator.

Senator GEORGE CAMPBELL—I think that is right. In terms of gold, they have been hanging in there because the price of gold on the world market has been fairly high. But it is reducing; it has been falling recently.

CHAIR—There has been a higher grading in the case of gold—going for the best quality veins that are most easily accessible and leaving the rest in the ground.

Mrs Finlayson—Plus the technology—being able to extract it at lower production costs through technology. I know it is quite irrelevant to this but I think there is a problem too in the question of how technological we are to get: to where we do not have anybody doing it in the end, it is all done by machine?

Senator GEORGE CAMPBELL—That is a point that I was also coming to.

CHAIR—Can I just say that the point of the exchange rate issue that Senator Campbell raised is that people buy our goods according to the price in their market. The price is production price plus profit. We are price takers here because there is supply overhanging demand, and demand is down. But the effect of this package is to put our price up by pushing up the value of the dollar, making our prices more expensive. That is the point.

Senator CHAPMAN—It is a matter of how much one offsets the other, in fact.

CHAIR—And there are a number of assessments about the shape and nature of the international economy, which is not looking as good as it was a year ago.

Senator GEORGE CAMPBELL—The other point related to that is the comment you make in your conclusion where you say:

. . . if there can be any tax system that encourages businesses to use labour over capital.

And I understand the comment you made previously. Are you aware that in the modelling done on this package by the government's preferred modeller, Chris Murphy of Econtech, he actually argued that there will be a shift away from labour to capital as a result of the introduction of this tax package?

Mrs Finlayson—No, I was not aware of that.

Senator GEORGE CAMPBELL—So in fact the reverse will occur, as a result of the introduction of this tax package, to the sort of outcome that you are seeking there.

A fair bit of your submission relating to other taxes, the FBT and the payroll tax. It is fairly obvious from comments made in the past few days that the FBT is not going to go away and that it will continue to be with us. Have there been any statements in Western Australia by the state government in respect to payroll tax? Have they given any indication that they will be abolishing payroll tax as a result of the introduction of this tax package?

Mrs Finlayson—I think they are having two bob each way at the moment, in the sense that they are saying that, if they get what they consider a fair share of the tax dollar once the tax system is reformed, they may be able to look at taking off some of their state taxes. It is the chicken before the egg, really.

Mr Ciantar—We are not aware of any of them saying anything in the public arena. My understanding is that they are keeping their gunpowder dry, if you like, until they have a better idea of what is being proposed.

Senator GEORGE CAMPBELL—But there has been no public commitment by them?

Mrs Finlayson—The payroll tax dilemma, particularly with mining companies and people in regional areas, has led to a strong lobby pressure on the state government for a long time to look at the impact of the payroll tax. As always, the standard argument is: 'The feds are taking too much tax off us and we're not getting it back.' But it is something that is very high on the agenda of most chambers of commerce and of chambers of minerals and energy. In some ways they think the impact of payroll tax is the biggest thing crippling the development of the mining industry.

Senator GEORGE CAMPBELL—I am interested in your comments here that the findings of the report say 'Uniform labour taxes such as payroll tax or FBT have a more significant impact' on areas like this. The GST is a uniform tax on labour; it will be applied

uniformly to labour costs. If your view is that these other taxes are bad because they are uniform taxes on labour, then the logical extension of that is that the GST is bad because it is a uniform tax on labour.

Mr Ciantar—I do not quite follow your argument there, to be quite honest. Why we say things like the payroll tax impacts harder in our region is because we have an average income much higher than the rest of the state—in fact, the rest of the country. I think we have one of the highest incomes in the country in fact. With the GST, my understanding is that we have been promised income tax cuts, which obviously will be of great benefit to a lot of people in this region because of the higher tax brackets they have been pushed into over successive years. I must admit I do not quite follow your argument.

Senator GEORGE CAMPBELL—But you are still going to have high labour costs in these regions.

Mr Ciantar—Due to?

Senator GEORGE CAMPBELL—Because the cost of labour is high in these regions. To attract labour to these regions, wages are substantially higher than they are in other areas. The GST will be applied uniformly to those labour costs.

Mr Ciantar—The inputs, yes. There will still be an advantage for our export industries, though, won't there, which predominantly we have in this area?

Senator GEORGE CAMPBELL—How will that be in terms of labour costs? Where will the advantage be?

Mr Ciantar—Because of the tax concessions on the GST for the exporters. The drift of your argument is what: that, because the GST will increase labour costs, this will create greater costs for producers? Is that your argument?

Senator GEORGE CAMPBELL—You argue that the payroll tax and FBT is a bad tax because it is a uniform tax on labour.

Senator CHAPMAN—So is the wholesale sales tax.

Senator GEORGE CAMPBELL—But it is not on labour. The GST is a uniform tax on labour. That is the only distinction I am making.

Mr Ciantar—Sure. We also believe that you cannot look at the GST in isolation, and that is why we have referred to these other taxes. One of the other senators commented that the FBT is not part of your terms of reference, but to us it seems you cannot isolate the impacts of all these different taxes. They have got to be treated holistically.

CHAIR—You are the development authority; you are promoting the economic development of this region. Do you have any projects to promote tourism?

Mr Ciantar—Yes, we do. We are supporting the development of the outback highway. We have a management board of 10 people and, in fact, one of our members is heading up that body, the Outback Development Council.

CHAIR—The Kalgoorlie School of Mines is an internationally famous mining educational institution. Does that attract foreign students for education?

Mrs Finlayson—We have been working on it for four years. It is now called the Centre for the Management of the Environment—

CHAIR—It is not the mines any more; it is the environment.

Mrs Finlayson—Yes. It was going to be called the Centre for Arid Land and Mining Management but—

CHAIR—Life becomes more complicated.

Mrs Finlayson—It does, and it is really quite frightening that we have to put the word ‘environment’ in anything to get funding. I am like you, I am very parochial about the School of Mines. Two of my children have been through. We had a very heated discussion when there was talk about moving it to Perth. Three years ago there was talk about moving it to Perth. It has now come under the banner of Curtin. The Centre for Arid Land Management of the Environment, which is what we are looking for, now has basic funding from the state government. The centre actually started functioning this year. We had a Destech conference here three years ago which was looking at desert technology and the rehabilitation of arid lands and the rehabilitation of mining projects.

The long-term vision, which I hope will come to fruition in about two or three years, is to really encourage the access of international students into this thing, mainly because we can give them hands-on, take them out on projects and do actual physical things, working both on arid lands and on mining things, and benefit from the increase in that it is now a campus of Curtin.

CHAIR—Would you see that as an important sunrise industry that broadens the industry base of the region and provides more employment alternatives for kids coming through the education chain?

Mrs Finlayson—The two things that I believe will be the main producers of the economic base in the future for the Kalgoorlie-Boulder and Esperance Goldfields region after mining—or even while mining—are tourism and education. Along with Curtin campus, we have a very good private high school and a state high school. Until this year, students have always had to go to Perth to do basic things like teaching, nursing and those sorts of things, but that is coming in here now, and we really can see, I believe, the potential for tourism and the potential for education as a business.

CHAIR—Are you aware that the independent economic modelling commissioned by this inquiry of Monash University found that the package discriminates against labour intensive industries, and specifically found that it discriminates against tourism and education exports?

Mrs Finlayson—Education exports in the sense of?

CHAIR—In the sense that you are trying to attract foreign students to study in Australia. There is no reason why you should actually know that because there has been a whole lot of detailed information, but I assure you that is one of the findings. Would you be concerned about that?

Mrs Finlayson—Extremely concerned about it because of the vision shown by Curtin University. They are quite big land-holders within Kalgoorlie, not only in staff housing but in buildings, and they have just revamped, rebuilt, the whole School of Mines.

CHAIR—We have published our first report, and I am sure a copy of the report is available from the secretariat. You will find the study report in there, which you might find worth looking at. One of the points you made earlier is that keeping a critical mass of population in this region is a prime concern for you.

Mrs Finlayson—Senator, why does it impact so much on tourism and education exports?

CHAIR—Basically because they are service industries which are untaxed at the moment. You need to go to part of the arguments of the tourism industry, but those arguments, as I understand them, are essentially that tourism is a price sensitive industry; attracting foreign tourists to Australia, where they have competing destinations all around this region, is affected by price; that the exchange rate will drift up by 3.5 per cent making the price more expensive; the costs for tourists in Australia through paying a GST on services like hotels and some parts of travel and other things will be more expensive; and the impact will be felt most at the mums and dads level, with the smaller operators—which I think in this region would be typically desert safaris, caravan parks and things like that—being the ones that will bear the brunt of it. The high rollers, the wealthy tourists that go to the reef, the rock and the Opera House and fly out, staying in luxury hotels, probably can afford it if they want to come to Australia, but the rest of them will be impacted upon. And with education exports, foreign students coming here will pay a whole range of taxes on services provided to them.

Senator GIBSON—But not education.

CHAIR—Not direct education, but they have to live here.

Senator SHERRY—Hostel accommodation—food and accommodation.

CHAIR—Yes. That is the finding. You asked me to explain it; I have explained it to you as adequately as I can. I find it interesting that in Kalgoorlie today we seem to be doing a lot of explaining about what is involved in this package. That is not a criticism of any of the witnesses who have appeared before us. It is a comment on the detail of the package, how much knowledge of it is in the community and whether more funds should be spent in better explaining it. But that is another matter.

Senator CHAPMAN—I might ask how much knowledge there is of the existing system.

CHAIR—We all operate under it, so we have a practical working knowledge of it. But we are debating each other. You asked me the question. That is the comment I make.

Mrs Finlayson—Thank you.

CHAIR—Do you have any particular projects, current projects, where you are looking to attract industry to the region?

Mrs Finlayson—We have the Mungari industrial estate which, as the Mayor of Kalgoorlie-Boulder describes it, is a road into the bush. It has a bitumen road, but that is about all. Because of state government competition and corporatisation, they cannot afford to get their head works out there—electricity and power. They had a native problem as well. That has been semi-resolved now and we are moving ahead.

I believe that probably our main focus is the industrial park. There is such a shortage of land in Kalgoorlie-Boulder that the industrial park is about 20 kilometres out. We need incentives for regional industries to come out here. I would say that we have to start looking at manufacturing industry and value adding in the sense that we do already. The base of Kalgoorlie since the nickel crash is very different in the sense that there is a lot of industries that supply service and parts outside the region.

Mr Ciantar—We are also promoting a transport hub with a limited degree of success at this stage.

CHAIR—I commend to you the submission of the RAA in South Australia about higher petrol costs for outback users.

Senator GIBSON—They are allegations. They were not accepted as facts.

CHAIR—It is their submission.

Senator GIBSON—Yes.

CHAIR—This is criticising the RAA of South Australia. I do not think they have a political axe to grind either way. They put this view forward based on work they had done in more remote regional South Australia, and their case is quite straightforward. You pay a flat percentage on a higher charge, therefore you are paying a higher cost and the outcome of the sum is higher.

On construction costs, of course, on building materials where not all but some building materials will attract a 10 per cent tax where they did not before, some of them will be reduced, but the net effect is, according to the modelling, higher costs on construction. They are remarks by me. They are more in the nature of discussion rather than questions, but they are important considerations for encouraging development where you are competing for alternative locations.

Senator GIBSON—Can I correct something that shows my ignorance from earlier. On page 86 of the ANTS document, with regard to excise on fuels, after talking about diesel fuel for trucks, it says:

All other off-road business use of diesel and like fuels (including diesel, bunker fuel and light fuel oil for marine business use) will qualify for a full credit of excise.

On the next page it says:

Separate rebate arrangements will continue to provide relief from excise for certain private, off-road use of diesel, such as remote power generation (including generators not currently eligible).

I am just signalling that we will chase up further details and endeavour to come back to you.

Mrs Finlayson—As I understood, the light fuel was only going to go for marine purposes and remote power was only going to be for diesel generated ones, not light oil ones.

Senator GIBSON—Mr Campbell assures me that that is not so. We will double check on that.

CHAIR—Do you have any concern regarding what will be the tax treatment of land under the GST, specifically, the need for land to be valued from 1 July 2000, land that will be used for any commercial enterprise?

Mrs Finlayson—Are you talking about the Valuer-General's assessment of what the land is worth?

CHAIR—You will have to make a valuation of the land from 1 July. Is that a concern to the authority?

Mrs Finlayson—I would not have thought so.

Mr Ciantar—I am not quite sure of the implications of that. Would you like to elaborate?

CHAIR—Under the tax treatment of land, you will need to give a valuation of land for sale after 1 July 2000 in order to work out the GST.

Mrs Finlayson—Is that going to be different from the value of land that we already get through the Valuer-General now on commercial land?

CHAIR—If you have the land valued at 1 July, when you actually sell it for commercial purposes later, the part of the land that is GSTable can be identified.

Senator SHERRY—It is developed land.

Senator GIBSON—Yes. Private sales of land will only be taxed on the margin. In other words, whatever the agent's fee and expenses for handling the sale—his five per cent or

whatever it is—there will be GST on that margin. That is the case for most land. If you are a land developer, then you would have to value your land at 1 July 2000, because if you are a land developer who is selling land for commercial purposes GST will apply.

Senator SHERRY—Presumably the industrial park would fall into that category.

Mrs Finlayson—Does the stamp duty component go, though, that would offset that?

Mr Ciantar—Does that have any implications for capital gains tax?

Senator GIBSON—Capital gains tax is still under discussion, as you know, by the Ralph committee. Concerning stamp duty on commercial properties, the agreement with the states is that that is coming off.

Senator MURRAY—I have two questions. The first is that this is probably the first submission I have seen where the questions have mostly gone in this direction. As a development body with very important responsibilities, have you had an opportunity to really assess the ANTS system and the ANTS package and to work out what it means to you?

Mr Ciantar—Not in detail, no. You made the comment that the questions are going one way. We definitely have the impression that this is not a neutral forum and that we do need to know exactly where the questions are coming from and being clear in our mind what the questions are intended to elicit.

Senator MURRAY—There is an important theme behind what I am asking. It is not a criticism of you for not knowing the whole package—I would be surprised if many people did. Given the enormous impact it will have on the Kalgoorlie-Boulder region and your pivotal role in the centre of this, does this indicate that the advice, the briefings and the analysis which have been provided to you to date have been inadequate and that you do not fully comprehend the most important consequences for your region yet?

Mrs Finlayson—I think in some ways it would be. We discussed this exact same thing at the regional development council—the implications of lots of the things within the tax package. Unless you have a real grasp of the whole situation and you have really been right through it backwards and forwards to actually know the implications of something, you might read something and think, ‘Oh, yeah,’ but you do not realise the true implications that that may have on regional development. I would like to have something. I have read tax package brochures and things, but still I find it difficult to realise the full implication of it.

Senator MURRAY—We have had passed us academic, commercial and other models from people who are very professional in analysing the macro-economic effects of this package, and they have come to a number of conclusions. You have heard that they have said tourism, for instance, is a loser, as is the construction industry, but winners are manufacturing and mining. That is the universal opinion. Mining is obviously core to your region. I have understood that manufacturing is a desired goal for the region because of the provision of water and energy sources, gas, into this region?

Mrs Finlayson—Yes.

Senator MURRAY—What are the projections for manufacturing in the region? What is the total amount that you plan to generate in terms of manufacturing income in this area through this provision of gas and water and so on?

Mrs Finlayson—My personal opinion is that we have to get the incentive to get manufacturers out here. The problem we are having at the moment is the cost of head works—they are not interested.

Mr Ciantar—We are the biggest manufacturing base outside Perth because of mining and agriculture. We have a substantial manufacturing base here already and we are hoping to enhance that with the sealing of the Goldfields-Pilbara Highway. We hope to tap into the servicing of the iron ore industry.

Senator MURRAY—But there is no \$50 million figure or whatever. You are still in the process of providing infrastructural support?

Mr Ciantar—It is correct to say that, yes.

Senator MURRAY—I got a little confused by one of your paragraphs. I will read it to you. The pages are not numbered, but on the sixth page, bottom paragraph, you said:

It could be argued that taxation changes will not encourage business, particularly in mining and farming to have a bias towards labour as opposed to capital.

I took that to mean that you would like to encourage employment and you would like a tax system which promoted labour. As Senator Campbell has told you and the modellers have told us, this is a package which encourages capital intensity, not labour intensity. You then go on to say:

This is due to the productive capacity and efficiency of capital over labour and rapid technological advancement.

I can understand that, but then you say:

Any tax system that favours labour over capital could be interpreted as just a bribe for firms to remain inefficient.

That seems to imply that you do not consider labour intensity a good option. What did you mean by that sentence?

Mr Ciantar—Referring back to my opening comment, we do have a dilemma here in that we realise we need to have export industries that are internationally competitive, which by definition means that they have to be technologically at the forefront. We pride ourselves on being that in the mining industry specifically. How do you solve that dilemma, that basic contradiction? On the one hand, because of globalisation, you have to have very lean, competitive exporters who in the process are going to shed labour, but the very reason that we promote regional development is to get people to come and live here. It is a real quandary.

Senator MURRAY—Are you saying that, if you could lower labour costs, that would be a benefit to the community? For instance, if labour did not have a tax on food and therefore not demand greater wage increases, that could be beneficial?

Mr Ciantar—Labour costs have to be competitive, but historically the cost of labour has been higher in the region than it has been in the metropolitan area. You will find that the same within the Pilbara.

Senator MURRAY—Let me make the question clear to you. The ACTU are saying that this package of compensation is insufficient. They are therefore going to look at the option of agitating for increased wage demands. The economists and modellers say that, if they do that, it will result in job losses. Therefore, if you can restrain the CPI and restrain the add-on costs which labour is going to get, there will not be those demands. Food is one of those issues. If we do not have a GST on food, your CPI drops from 1.9 to 0.5 per cent. Talking to you about the theory you have expounded in that paragraph, are you of the opinion that, if you can hold down labour costs, in whatever form—FBT and GST costs, et cetera—you should do so?

Mr Ciantar—If it makes labour more attractive vis-a-vis capital, yes. Also, it is not quite as simple as that in this region because we do attract a lot of highly skilled people who could command fairly attractive salaries, such as diesel fitters and professional people. They can actually negotiate quite good agreements on a one-to-one basis.

Senator MURRAY—If I look at your opening paragraph, of the four opening statements that you want to achieve, two of those refer to reducing labour costs—in other words, getting rid of FBT and getting rid of payroll tax. I am asking you: does that principle then extend to what would happen if you could arrive at a system which lowers labour costs in other areas without affecting the economy detrimentally? You would support that?

Mr Ciantar—On the face of it, yes.

Senator CHAPMAN—The questions that Senator Murray has just recently been discussing with you really are predicated on an opinion that the compensation package that is being offered, either by way of increased benefits or substantial tax cuts, is inadequate to cover the modest additional cost the GST would effect on the price of goods and services. As you have said, most people in this area are relatively high income earners and, therefore, are going to benefit from the substantial tax cuts, probably well in excess of any additional costs that might arise. In that situation, do you think it is likely that there would be any pressure for wage increases arising out of the package?

Mr Ciantar—We are not all high wage earners, so I could see there could be some pressure, say, for the retail industry. I do not know whether we are really in a position to answer that question.

Mrs Finlayson—I think you are going to see it with the service industries: nurses, teachers, things like that. They are all the time going for enterprise bargain agreements with the state government. I agree that the high income earners are going to be the big

beneficiaries, but there are going to be lower income earners. We say Kalgoorlie has a high flying economy, but there are a lot of people on a basic wage here as well.

Senator SHERRY—I do not think that the bar attendant at the pub would be earning a great deal.

Mrs Finlayson—No.

Senator CHAPMAN—Also, if excluding further items, such as food, from the purview of the GST means increased compliance costs, even if there was some element of wage pressure, which Senator Murray speculates about—but you have also got increased compliance costs—which is your preferred option: to have minimal exemptions or have the sorts of exemptions that Senator Murray postulates?

Mr Ciantar—Small business has certainly indicated their concerns with the impost of the compliance requirements of a new tax system.

Senator CHAPMAN—I am talking about having a new tax system that is not as broadly based as the government is proposing—in other words, you have exemptions which then increase the cost of compliance because people have to determine whether certain items are exempt or not.

Mr Ciantar—I guess the other argument is whether it is fair to other low income earners who have got to pay the additional GST on food.

Mrs Finlayson—One of the points that has come up about a GST on food is that, if the cut in diesel fuel lowers the transport cost, which is why we have this much higher rate of food costs within the region, the GST on the food will level out to what it was previously anyway. I think probably one of the concerns that small business have had, and just in general discussion, is exactly what you are saying: how do they decide what is GST, what is not, putting in their returns—that sort of thing. They feel that it is going to be for them much of an accounting and business type thing to actually fill in forms and send them off every month, particularly when there are only one or two people in the business. It just seems to be more of an impost on their time.

Senator CHAPMAN—They would prefer minimal exemptions because that makes compliance very simple.

Mrs Finlayson—That is right.

Mr Ciantar—That is one of the major attractions of this new tax system, as I understand it, from a small business point of view: it cuts down on the dreaded paperwork.

Mrs Finlayson—Can I ask a question that was asked of me. Will royalties on mining establishments, whether they be royalties paid to Aboriginal groups or to anyone, have a GST component on them?

CHAIR—If the mining companies have reached an agreement over native title for the exploration or development of that land and are paying a royalty or whatever contractual arrangement there is, my understanding is that, yes, they will have to pay the GST. I understand why you are asking the question, but I am not in the position of having to explain the government's tax package. I am in the position of inquiring into it in order to inform the Senate as to what we have found about community views on the tax package.

I must say that today in Kalgoorlie it has been quite instructive in that we have found that there is not a lot of understanding about some of the finer points. The headlines have all been consumed, but the fine print remains a maze and is not understood very widely. When we are locked up in Canberra, we can have free flowing discussions with high paid lobbyists who have creamed their way through all this detail, but the further you move from Canberra the harder it is for people to have the opportunity—it is not a criticism of them—of working through the package, applying it to their own circumstances and coming up with conclusions.

Mrs Finlayson—It was the mining industry that asked because they wanted to know. If it is GST liable, who pays it: the person getting the royalty or the mining company before they hand it over? It was just a thought, and they asked me.

Senator GIBSON—It is a financial service and I would think it would be excluded from it.

CHAIR—I will have my experts check on that.

Mr Ciantar—Can I say that your summaries of this are fairly accurate, but I would hasten to add that it is not the only policy area in which the further away you get from Canberra the more confusion and uncertainty there is. This one, because of its complexity and the impacts, is specifically important to us.

CHAIR—That is appreciated and understood, and do not ever believe that those who spend a lot of time working in Canberra understand all of this either.

Mr Ciantar—It seems so from all the discussions at your end of the table. I have some updated versions of our presentation today.

CHAIR—Is it the wish of the committee that the document be tabled? There being no objection, it is so ordered.

Mr Ciantar—Would the committee be interested in receiving—

CHAIR—Yes, I am sure we would.

Mr Ciantar—There is one specifically for the Goldfields-Esperance region and the other one alludes to the rest of Western Australia, including a sample in Perth.

CHAIR—Thank you very much. Your evidence has been very useful. Thank you for assisting us in the way you have. I will excuse you as witnesses.

[12.39 p.m.]

CAMPBELL, Mr Graeme (Private capacity)

CHAIR—Please briefly address your submission.

Mr Campbell—You have the details of my submission. I submitted it simply because you require a submission to be provided. It is my view that the people of Australia have been cheated. When the government announced it was setting up this inquiry we were told it was going to be a wide-ranging inquiry to tackle all aspects of taxation. We know that the Treasurer gave instructions that debit tax was not to be considered. All we have asked with the debits tax is that this tax be considered. We believe it is a most equitable tax. We believe it is a tax that would be best for stimulating the economy.

CHAIR—Graeme, can I just interrupt you to say that the terms of reference of this inquiry were those decided on by the Senate. How they were negotiated is a matter of some interest. I certainly was not party to the negotiations, but the terms were agreed by the Senate. It may be that the government and the Treasury had a particular view about what they thought were acceptable terms.

Mr Campbell—The Treasurer is on the record as saying he would not waste his time on any discussion of the debit tax. All we are asking is that the debit tax be considered, and to do otherwise is bordering on witchcraft.

CHAIR—There is one term under which we can consider other suggestions, and it is probably under that heading that you are addressing us.

Mr Campbell—That is right. That is not to say that I do not have strong views on the GST. The GST will clearly impact disproportionately on country people, and if the United Kingdom is any guide with the GST which applies to tourism now the tourist industry say it has cost \$2 billion a year having a much lower threshold. The impact here is going to be exactly the same because tourism is a competitive business. It will react more strongly on country people because there are components of country living which are those components identified as being affected by the GST. Quite frankly, given the urban nature of Australia, I doubt whether anyone cares very much.

On the debit tax, I am happy to answer questions. What we are saying initially is: bring in a modified debit tax to replace only the GST. We submit that, if you taxed all financial transactions at 0.1c, you would raise an equivalent amount of money to the GST with far fewer administration costs and, therefore, a far better net outcome with far less disruption to industry or to business.

CHAIR—We have your submission.

Senator GIBSON—Mr Chairman, could I just make a comment to correct the record. Graeme, I was chairman of the coalition committee on tax from September 1997 basically

until June last year. We received lots of submissions on debit tax and similar transaction taxes. They were faithfully passed on to the government for consideration. To say that they have not been considered is just not so.

Mr Campbell—Unfortunately, Senator, you have the Treasurer's words that he would not waste his time on the consideration of a debit tax. We had the Prime Minister saying it had been tried in Sri Lanka and had been thrown out. It was never tried in Ceylon. What was tried there was a transaction tax which was much more akin to your GST than it was to a debit tax.

Senator MURRAY—Mr Campbell, I understand the proposition you are putting to us, and we had a presentation and submission from Mr Wigg in South Australia yesterday, which you refer to. The difficulty with appraising such a system, from the Senate's point of view, is that we do not have the means to appraise it as a whole, and by that I mean to go through the whole system of modelling and all that stuff. Are there any developed academic studies which are available to us which explore all the strengths and all the weaknesses, exactly how it would be applied and which sectors of financial transactions would be left out and which would not—a kind of holistic appraisal of the proposal?

Mr Campbell—Yes, there are. An enormous amount of work has been done in the United States. My understanding is that the Debit Council in the United States now sits on the Tax Advisory Committee to the President, so it has obviously got more recognition there than it has here. But the fact is that the states in the United States do use a debits tax—a BAD tax is a debit tax, albeit a regressive one by the nature of the way they apply it. The BAD tax is quite clearly very easy to collect and it has been of great value to the states. That tax applies only to cheque transactions where we say it should apply to all financial transactions to be equitable. Clearly, the system does work.

The Australian model is much simpler than the United States model. One of the downsides, it is said by some, is that the application of the Australian model would wipe out foreign exchange transactions in so far as our gambling is concerned. Those companies that need foreign exchange for their transactions would not worry at all, but these people who gamble on foreign exchange would find it difficult—and I think it would be a good thing, not a bad thing. The American model has a way around that by having them operate out of an isolated bank account.

There has been a lot of talk here about assistance to industry. Quite clearly the GST is not going to help exports to any significant degree because it does not address the problems which affect export industries. I believe exports have to be stimulated in Australia and we have to get away from the raw material concept. We have to get into much more value adding and that is not going to be assisted, in my view, by the GST. It does not attack the real problems that now hinder exports.

CHAIR—Thank you, Mr Campbell.

Proceedings suspended from 12.46 p.m. to 1.34 p.m.

BIRNEY, Mr Matt, Executive, Kalgoorlie-Boulder Chamber of Commerce and Industry

CAULTON, Mr Andrew Donald, Executive, Kalgoorlie-Boulder Chamber of Commerce and Industry

GALLAGHER, Mr Hugh Henry, Executive Director, Kalgoorlie-Boulder Chamber of Commerce and Industry

HILL, Mr Richard Gavin, Membership and Industry Services Committee Member, Kalgoorlie-Boulder Chamber of Commerce and Industry

CHAIR—Welcome, gentlemen. The normal procedure is for you, if you wish, to address us on behalf of the submission that you have provided. If you want to call on your colleagues to supplement that, that is fine, but please keep it reasonably contained so we can then ask questions based on what you have put to us.

Mr Gallagher—Mr Birney is an executive member of the Chamber of Commerce and Industry, and is a businessman in his own right—he owns a spare parts business, and has other interests as well. Mr Caulton is the regional manager for Austex, a mining supply company. Mr Hill owns the McDonald's franchise in Kalgoorlie in partnership with his wife. I am executive director of the chamber, a full-time employee of the chamber.

I will briefly run through our submission and then, if you do not mind, we will work back through the points we make, because each one of us has different areas of expertise and has different questions that we would like to present to you. Are you comfortable with that?

CHAIR—It is for you to decide which is the best way of producing your case to us. On the subject of questions to us, we are an inquiry asking questions of you. I must say that since we have been in Kalgoorlie we have received more questions from that side of the table than have been asked from this. Let us work our way through it and see what comes. This is a committee of the Senate, not of the government, and it is not for us, as a committee, to be a source of information about the government's proposals. We are inquiring into those. Government senators might wish to answer them; others of us might wish to give a different view. The purpose of this is for us to get your views to report to the Senate. Let us get on with it and see how we go.

Mr Gallagher—What we will do then, under those circumstances, is touch on each area as we go through and complete them as we go. In terms of compliance, there are two questions there. One of the concerns that people we communicate with is, 'What will the cost of complying with a GST in particular as part of the package be to business? Will it be more or will it be less?' The second part, which relates to liquidity, really refers to businesses with outstanding accounts as to whether their payments will be calculated on their outstanding accounts or on their receipts. Possibly I could invite Andrew and Matt to respond to those two.

Mr Birney—I think what we are trying to say here is that, in the normal course of doing business, we have found there is a credit squeeze in most circumstances. A lot of the time

we find that our customers will not pay us for 60, 90, 120 days—or, dare I say it, sometimes 150 days. Whilst I think it is fair to say that in broad terms we support tax reform, our current understanding of the proposal is that a GST will have to be remitted in the month immediately following your sales. I ask you people to take on board the fact—

Senator GIBSON—A quarter.

Mr Birney—It is the quarter, is it?

Senator GIBSON—Yes, it is each quarter. The middle of April—21 April—will be the deadline for the end of the first quarter.

Mr Birney—Thank you, Senator. Let me try and clarify what I was trying to say. I guess in that last month, if you like, of the quarter, we run into a problem, given that we may not get paid for 60, 90, 120 days for that month's trading and yet we are required to submit, under the current proposal, a GST for that month. We would ask you to take on board those comments. We do believe this issue is very important and, at the end of the day, it will have some sort of an effect on our cash flow.

Senator GIBSON—Depending on the size of the business, you have a choice of either going with accrual accounting or going cash. I think in this document we signalled \$250,000 per annum for a cash business: that is, you can stay with cash or you can go with accrual if you want to, but above that you have to go accrual. But I think since then the government has signalled we are going to lift that to half a million dollars, if my memory is correct.

Mr Caulton—Areas like this rely very much on day-to-day business but then we will get big runs, like the three major nickel plants that have kicked on now. That is a problem because they are one off and, for us, that would just be one project in Australia that could push us over half a million dollars out at 150 days where we stand right at this moment. It is happening right now in this town and that is one of the reasons we have raised it. This is a project based town as well as a digging town.

Mr Hill—Correct me if I am wrong, but the document defines that figure of half a million dollars as being a small business. Is that correct?

Senator GIBSON—It is the figure, if I am correct, whereby you have a choice with regard to accounting treatment. Below that figure you are free to choose whether you go accrual or cash. Above that figure there is no choice—you must go accrual.

Mr Hill—When you say accrual, it is referring to the quarterly payment. Is that correct?

Senator GIBSON—No, it is just the way you do your accounts. If you are a very small business operating on cash—cash in, cash out—you can run your accounts on cash. But with full accrual accounting you are accruing every invoice or every commitment, both in and out, when it actually occurs rather than when you get the cash.

Mr Birney—Could I ask why we have this differentiation between accrual and cash? Is there a major problem that you people foresee in having it based simply on the amount of

money going through your bank account—that is, when you actually receive your cash you then submit your GST?

Senator GIBSON—That is cash accounting, and I know that it is the simplest way and lots of small businesses do just that. But, when you get to larger businesses and you have got substantial capital items which you have to depreciate and take allowance for, it is much more sensible to go full commercial, which is called accrual accounting.

CHAIR—Perhaps the best way of proceeding—this may be awkward—would be to go through your submission and you can ask questions if you have them but remember that we are here to hear your opinion about whether you want this changed or not. It may be that we are at an earlier stage where you are not comfortable about giving a judgment on whether the changes are good or bad or whether you want them altered because you are still at the point of getting further information about them. If that is the case, it is probably important for the inquiry to know the level of knowledge. To try to get some reasonable order of dealing with what is quite a long list of things, perhaps we can go through them reasonably well and come back to your questions. Is the committee of that view?

Senator GIBSON—Yes, that is fine.

CHAIR—Okay.

Mr Gallagher—The second point we have listed relates to exemptions. From the research that we have done—and I am sure it is nowhere near as much knowledge as you learned gentlemen have—we are of the opinion that exemptions should be minimal, as we believe the base should be as broad as possible so that the impact on all Australians is as minimal as possible. Hence we refer to financial transactions as the only exemption that we consider to be a priority.

Point 3 is provisional tax. Provisional tax is, as we all know, calculated basically 12 months in advance. We would like to see this calculated on a quarterly basis so that it is a true reflection of the business climate at the time. In essence, I think that covers what we are referring to on provisional tax.

Point 4 is tax reviews. Once the new tax system is introduced, we would be very keen to see a review of the tax system after 12 months and, from then on, a complete review of the Australian tax system every five years.

Point 5 is about transport. There have been a lot of efficiencies in Australian transport over the years and we are very keen, with the new tax package, for transport into regional Australia to maintain its efficiency. If there is to be any variation we are keen for it not to impact negatively on transport. From a regional point of view, transport is probably one of the most important components of costs associated with living in regional Australia.

Point 6 relates to the GST implication fund—I am not sure whether that is the correct terminology. We would like that fund to be utilised in such a way that it is distributed throughout Australia to those who can make best use of the money—regardless of where

they may be—so that we can eliminate the confusion about tax with some of the proposed changes that we are possibly facing.

The last point refers to the GST arbitrator. In the first 12 months, or probably even in the first quarter, there is every chance that there will be honest mistakes made—and some dishonest ones—and we acknowledge that. But there will be honest mistakes made by people in business as they learn to comply with the new tax act, and we are very keen to ensure that there would be an independent arbitrator. ‘Independent’ is the key word, so it would not necessarily be the Australian tax office. Essentially, those are our points.

CHAIR—Do any of your colleagues wish to add anything to what you have said on any of the particular points?

Mr Birney—I will add something, Senator Cook. You are basically interested in knowing where we stand on the GST and, I guess, on tax reform in general. I think it is fair to say that the Chamber of Commerce and Industry in Kalgoorlie-Boulder does support some sort of tax reform. I guess I am alluding a little to sales tax. We believe that sales tax in itself is a problem for this region. We believe there are too many exemptions handed out under the sales tax regime as it is. The problem is not necessarily with the cost of complying with the sales tax regulations. But it becomes quite cumbersome for a business person—especially a smaller business person—to operate under the sales tax regime when you may have, for example, somebody come to your counter and actually want to claim a tax exemption. For various reasons, a hell of a lot of small business people are a little loath to approach the tax department and to set themselves up as a sales tax collector.

What we find in Kalgoorlie-Boulder is that somebody will sell a part to a mining company tax exempt and then order the part back in, tax exempt, from their supplier. The net effect of this transaction is that you must sell that part twice in order to realise the profit on it.

Rightly or wrongly, small business people do not like approaching the tax department. Sales tax is a problem for us today as business people and, on the basis of that, we feel that there needs to be some sort of reform. If a GST is going to replace a sales tax, then so be it.

Senator GEORGE CAMPBELL—Can you just explain what you meant about having to sell the part twice? I did not understand what you were saying.

Mr Birney—What would happen for a business person under normal rules and regulations is that if a mining company that had a registered tax exemption certificate came to them and said, ‘I want to buy this and I have a tax exemption number,’ in the normal course of events the business person would apply to the tax department to receive back the tax they had forgone in that particular sale.

We are finding quite a lot that small business people do not want to approach the tax department for various reasons. They do not want to set themselves up as a sales tax collector because they do not want to attract any interest from the tax department. So that particular business person will then turn around to his supplier and buy that part back in tax exempt. If you are working on low margins in the order of 20 per cent, 25 per cent or 30 per

cent, as a lot of us do, you find that the price you sold it for is similar to the price you are buying it for and you then need to sell it tax inclusive again to realise the profit on the whole sale. So there is an argument to be put for having the GST as broadly based as possible and for getting rid of all this inconsistency in terms of who is exempt and who is not.

Mr Hill—I will follow up on that with regard to exemptions. As a representative of the CCI, I must also point out that I am representing the restaurant industry in what I am about to say with regard to exemptions. I personally believe that the GST is something that will be beneficial for the entire economy. However, there has been a suggestion in recent times of the GST having exclusions, in particular on certain food items.

CHAIR—You may even be asked a question about that today.

Mr Hill—I thought you might have one.

CHAIR—Not from me, I might say. It is very unlikely that I will ask the question, but someone here might.

Mr Hill—I think it is fairly obvious that that is one of the major contentious issues when it comes to the GST. I would like to put forward a case as to why I believe that the GST has to be as broad based as possible and that it cannot adversely affect, or affect positively, any given area within the restaurant industry or within the food industry in general.

The whole rationale for the introduction of a GST is to simplify; to have a simple broad based tax system. If we talk about exemptions in food, I am sure you will all agree that the whole object of 'simple' has a new meaning. It will only add complexity to the whole exercise. Where the lines are drawn and who decides what is exempt and what is not obviously becomes a political bunfight probably for the rest of the next decade.

As a representative of McDonald's, I can give examples of the adverse effects of introducing a GST with exemptions in basic food items. I am sure you have heard it all before, but I am going to say it again. Canada is the worst example. In 1991 a rate of seven per cent was introduced. In that year, real food service sales fell 10.6 per cent and 46,000 jobs were lost. A subsequent impact study revealed that the GST alone had reduced industry sales by 7.5 per cent, amounting to 32,000 of the jobs lost that year. We estimate that a 10 per cent drop in sales would result in at least an eight per cent drop in labour—that would mean 4,500 jobs in McDonald's Australia alone. Obviously, unskilled and new youth workers and unemployed youth will be the most severely hit by that. Those are specific examples that McDonald's can provide.

I have tried to come up with some examples that are not related to McDonald's. One might be that if we walk into the restaurant across the road and order a steak and we pay \$15 for it, we will pay GST on that steak, but we can walk into Woolworths and buy the same steak for \$5 and not pay GST on it. Surely that is giving an advantage to one retailer over another retailer in the ability to market their goods and sell their products.

I am sure there are arguments to say that the welfare groups and people who are less fortunate perhaps might not buy that steak, but if the needs of the disadvantaged in our society need to be addressed, surely they would be better addressed through the social welfare system as opposed to bastardising the proposed GST and making it far more difficult and far more labour intensive than it needs to be.

CHAIR—Mr Caulton, you are the only one that has not had your three pennies worth. Do you want to—

Mr Caulton—It is very unusual for me to sit here and not say anything.

CHAIR—What is even more unusual is for us to sit here and not say anything.

Mr Caulton—There are a couple of points I would like to cover. One is that, unlike these gentlemen here, I share very little with the wholesale sales tax. To give you an idea of the industries that I do work in and have sold into before in the nine years that I have been out from underground and back up on the surface again, I deal with the mining industry, pastoral industry, local government, marine and Aboriginal corporations. This business that I am managing up here will turn over probably \$2.2 to \$2.3 million this year. I think I had one sales tax invoice written out this year. We just do not deal with it at all. I am hoping there are no mining industry people here—

CHAIR—They may read what you say.

Mr Caulton—Yes. I find it ironic that those industries just are not taxed. The funny part about it is that I do not hear anything. Normally the mining industry, if they think they are going to get stung on something, you will hear about it. I am sure you hear it in Canberra just as loud as we hear it here. I have not spoken with the Chamber of Mines or AusIMM or any of those operations, but it seems to me that they are relatively comfortable with what is going to be happening with this.

The other area that I would like to clarify is on the tax review. What we are talking about here when we asked for an initial review after 12 months is not on the rate. This is on procedure. We know as business people that you never get it right the first time. We are asking for a review, not for government departments to sit down and review it but to get the industry bodies together, not on a scale like this, to be able to review procedural problems that will crop up. As for the five-year review, I know there is a lot spoken about tax over the years but, if I have got my history right, we really have not had a major tax overhaul since either just before the war or during the war. It is a long time between drinks.

CHAIR—Since 1985.

Mr Caulton—FBT—I would love to get onto that one too.

CHAIR—Capital gains tax and a few other things.

Mr Caulton—Yes. In the areas of things like wholesale sales tax, because our whole country is changing, our business changes and the dynamics of our business change. Ten

years ago mining was absolutely full steam ahead in this country and probably leading it. At the moment, if you have not already felt it in the east, we are two years into a major downturn. It is going to get a lot worse at this stage before it gets better. We need to be able to be more flexible, at least to the point of discussing where the problems are. Even if it is very difficult to get changes through, at least we can make people aware of where the problems lie and change it. It can only be good for the country. By fixing it at five years, it does not really matter which party is in power or who has got control, it is just going to happen. It is going to be industry groups and government talking regardless of who is there. It should just happen every five years. Good business planning tells you to go through a major review every five years. We should be doing it with something as important as tax.

Mr Birney—Can I just add that my understanding of the net result of this particular proposal is that business costs will in fact come down once you remove the sales tax. Given that your inputs will be offset against your sales, the net result, as I see it, is that our business costs will come down. Given that small business in particular is a major employer of Australians, from a personal point of view I would like to see it enacted. It has to be beneficial from that point alone—the fact that we can get our business costs down, we can employ more people and we can get on with doing productive business.

CHAIR—Do you have anything to add or can we now turn to questions, Mr Gallagher?

Mr Gallagher—To quickly summarise, our chamber's policy on tax, particularly on the last couple of years of national debate on tax, supports a reform to the tax system that will incorporate a system that is much more equitable, with not necessarily a specific reference to GST but a reform of the tax package in the best interests of Australian business. That is our policy.

CHAIR—Before I turn to questions, we opened up with you having a number of questions of us about application of the package. Is it all right with you if I ask the senators here to ask you questions and, if you have got issues that you are not sure about, you identify them in your answers? We are not essentially in a position of providing information about this. This is not our function; it is the function of the government. We are representing the Senate. But if you are concerned you should say so. This is an opportunity to be on the public record about what you think.

I get to ask the hard questions, Mr Gallagher, I am sorry to say. You have just summarised your position as a chamber. Your submission raises a number of questions that you are unsettled about or uncertain of and puts forward a couple of points of view that you urge upon us, the review being one of them. We have to report to the Senate and reflect the arguments put to us by community organisations, yours being an important industry organisation. So that I understand what you are saying, are you saying you want answers to these questions before we vote on the bills or we should vote on the bills and should get answers to the questions when they become available?

Mr Gallagher—I would suggest that we are seeking answers prior to that, because I do not think we would be here if we were absolutely comfortable with the proposed tax package. So the answer to that is that we would be looking to answers prior to voting.

CHAIR—Some of the things you have put to us are changes you would like to see made. I suppose we could put in a bill that the government should review its tax package every so often. You have broadly expressed support but not in the particular terms of each clause that is before us. Are you saying that that is a condition that you would insist on to the extent that unless it is there we should not pass the legislation?

Mr Gallagher—I think we would recognise that in debate you are never going to get everything that you want. What we have given you is a fairly broad cross-section of the important issues as we see them.

CHAIR—Allow me to be a bit persistent. Is that a yes or no? Should we pass the legislation with that clause in or, if the government will not agree, pass it anyway?

Mr Gallagher—I say it needs to be in.

CHAIR—This is an unfair question I am about to ask you, so I advise you in advance. It is unfair because it is not in your submission. It came to us first of all this morning. The mayor, in giving evidence on behalf of the City of Kalgoorlie-Boulder, argued to us that the GST for regional Australia should not be at 10 per cent but be at five per cent. He argued that because costs are different here, the cost of doing business is largely higher, and there should be different treatment in the level of tax to recognise that. You can take this on notice and not answer it now if you want. If you do, I would like to come back towards the end of the evidence that you are giving to see if you are in a position to answer it. I would be interested whether, as a chamber representing regional business, you had a view on that proposition.

Mr Gallagher—I think our response to that would be that one of the reasons we have cited minimal exemptions is that we would like to see the base as broad as possible.

CHAIR—If I may cut across you, I do not think the mayor was talking about changing the exemptions; he was talking about the level. In his submission, as I understood it, he said there would be no further exemptions than those that are already proposed but that the level of tax payable for all of those people taxed in regional or rural Australia would be less, recognising the higher cost of doing business in regional and rural Australia. That was his point. You can take it on notice if you want. I am not trying to get you to say anything one way or the other. We are interested in considered evidence. If you are in a position to comment, please do.

Mr Hill—In an attempt to help you answer that question, if that proposal by our mayor was taken on board and implemented across Australia, what sort of effect would that have on the entire GST package? A simple answer would be that the entire thing would have to be totally restructured, wouldn't it?

CHAIR—I am not the right person to ask the question of, but in the informality of this discussion I will answer it. To the extent that business is conducted in regional and rural Australia as compared with the rest of Australia, whatever percentage of business that was of the total, there would be a slightly lower tax take, which might then affect the amount of discounts provided, if I understand what the government says about altering the package.

That is what the government says and not what I say but, for the sake of trying to explain it to you, yes.

Mr Birney—With respect to the mayor's position, I think that the whole idea of this new tax package is to get things a little bit simplified. Whilst I would certainly like to see us here in the bush pay five per cent or even nothing, I think it comes down to somewhat of a financial and budgetary argument as to whether or not it is feasible. But in the interests of simplicity—I do not know how my colleagues feel about it—I believe it would be a difficult task to implement.

Mr Caulton—The other issue you have got is where you, in all honesty, define rural and remote.

CHAIR—Rural and regional.

Mr Caulton—I think most people in Darwin would class themselves as that if there was going to be a discount. I just do not see how you could do that. At the end of the day we in the bush, because of national competition policy, are starting to have to pay real costs for the services we get and we are having to grow up and realise that. Because of things like the FBT, which has knocked these areas around a lot, we are losing people, and that is recognised. They are looking for other ways to try and attract people back. But I think we have to do that differently by making these areas viable and stand up on their own two feet. You cannot keep subsidising them forever.

CHAIR—I will cease my questioning at this point.

Senator GIBSON—I might take the opportunity to look at a couple of the queries that were raised early on when you were running through your key points. First of all, under the ANTS system, as you know, provisional tax is to go and will be replaced by quarterly payments of all the business taxes in one single payment. The key to the simplicity of that will be the Australian business number, which every registered business will have.

You had queries about transport. I remind you that the Treasury estimate for road transport costs was a 6.7 per cent reduction right across the board across Australia. About two weeks ago, before this committee in Sydney, the Australian Road Transport Forum, which is basically the big, heavy truck group, told us they expected heavy trucking costs to be reduced by between 15 and 19 per cent across the board. Why? Because wholesale sales tax of 22 per cent is to come off trucks, off tyres, off parts, et cetera and the excise is to come down by 25c a litre, plus the 7c a litre for GST. They are expecting very big reductions. And, what is more, they tendered evidence to suggest that the competition is so fierce in the industry that the prices will come down quite quickly.

You also mentioned the \$500 million small business fund for the implementation of a GST. The small business minister, Peter Reith, has established an advisory committee from the business community to give him advice about how that \$500 million should be spent and who should apply. There are no results from that committee's deliberations as yet.

In relation to a GST arbiter, there is a taxation ombudsman now. The Ralph committee report into business taxation released the third of the discussion papers this week, as you know, although the final report will not be until the end of June. Ralph has certainly, in the discussion papers, signalled that there ought to be a better review process and, if you like, an appeal process with regard to business taxation. Do any of you want to comment further on any of those items?

Mr Caulton—I will just comment very quickly on what you were saying on what the RTA has been telling you. Doing a straw poll through my contacts in the transport industry—which is big for us here—they agree that, along with a decrease in costs on the actual trucking long haul costs, they are looking forward to this decrease in rail costs as well, when we get that sorted out. So, bearing in mind that at the moment it is costing me around 6.5c a kilo, plus basic, to run gear from Perth to Kalgoorlie, I would be interested to see whether they can get it much lower than that. That is an overnight service. That is pretty good.

Senator MURRAY—Mr Gallagher, how many members are there of the chamber in Kalgoorlie-Boulder?

Mr Gallagher—Four hundred companies.

Senator MURRAY—Four hundred?

Mr Gallagher—Businesses, yes.

Senator MURRAY—What is the main way in which you get advised about a package as broad as this? Is it through your accountants individually or is from the chamber's head office in Perth? Where is the main source of information for your chamber's members?

Mr Gallagher—We are a separate entity to the main office in Perth. We are funded by our own members and in any other way that we can generate our income. We just happen to be affiliated with the CCI in Perth. How do we normally find out? We find out via accountancy practices. We did recently get some information from the Australian Taxation Office. It would come from a variety of sources who basically send us updates on different sorts of information.

Senator MURRAY—If and when this was to go through the parliament, is the issue of education and training a big one for your members? Would you need a lot of government input and support to make sure that people understand all the various issues, and new forms and new systems? Is that a big issue for your members?

Mr Gallagher—A very big issue because there is, I would say, a fairly total lack of knowledge of what the proposed new tax system is—based on my conversation with people in business on a daily basis.

Mr Caulton—If I could just extend that a bit further, what we do not want to see happen—which is why we would like to see this money come through industry groups rather than direct to consultants—is a new industry established like the training industry that was

established a few years ago which, at the end of the day, was providing a package but was not necessarily of use to the industry. We want to see it come in short, sharp, good training. What people need to know and understand up here may be a little bit different to what people in, say, Queensland need to know and understand. If it comes through industry groups, we can then go and pick the consultants we want to use that will provide this town with the knowledge it needs.

Senator MURRAY—What is the average price for an accountant in this town? Is it about \$120 an hour, or is it more?

Mr Gallagher—They never tell you.

Senator MURRAY—It is a serious question because this is what is in my head. You tell me there are 400 members. Let us assume the main source of detailed information and understanding was, in fact, an accountant. Let us assume that they were working on \$100 an hour and you needed 20 hours, which does not sound to be much. You are talking about \$2,000 a head. If you work that over 400 members, just for Kalgoorlie-Boulder, you are talking an \$800,000 education and training cost for yourselves to absorb such a package. You can multiply that throughout the country and you see what I am talking about. Have you been advised by either the head office or through the government package that, instead of you having to pay accountants to be informed, the government will provide the proper education and training for a very big new system?

Mr Gallagher—Have we been advised?

Senator MURRAY—Yes.

Mr Gallagher—No.

Senator MURRAY—Will you be campaigning for it?

Mr Caulton—We have already started. This is what this is about.

Mr Gallagher—I dare say if we have got the appropriate contact we would definitely write to them and make that recommendation.

Senator MURRAY—Would you want the Senate to campaign on your behalf for a major education and training budgetary allocation by the government to businesses throughout the country?

Mr Gallagher—Most definitely. We were of the impression that the \$500 million was for that purpose. Speaking with people at all levels of business—from the one-man operator to the 20-, 30-, 100- or 200-man operator—there is not a general understanding of the reason we are here today. The education process does need to be very comprehensive.

Senator MURRAY—What we have to appraise, from our committee's point of view, is: is that \$500 million enough? Will it meet the needs? Does it need to be divided up into particular areas? I tried to put to you an amount of time you might need, at a cost, if you

were to be informed by an accountant. If you substituted that with the government, what would that mean for your chamber in this region?

Mr Gallagher—We would find that many of the accountancy practices would see it as an opportunity, down the track, to derive income. I think the important thing is to put together simplistic packages that the accountancy practices can elaborate on not only to their clientele but also to others in business, because most people in business do have an accountant.

Senator MURRAY—Let me move on to another area. Speaking as representatives of your 400 members and speaking for yourselves, do you think your members trust politicians and governments?

CHAIR—You may speak freely, Mr Gallagher!

Senator MURRAY—Please remember you are on the record!

Mr Gallagher—I think it would be fair to say that most people do not have an absolute respect for politicians.

Senator MURRAY—Mr Hill says no. You can distinguish between governments and politicians: do you and your members trust governments?

Mr Gallagher—I think that most people would probably lump both together in fact. It is unfortunate. It is a pub joke, isn't it? That is on the public record now. A lot of things that are discussed in the pub have a degree of truth in them. The perception is there—in my opinion and in the opinion of most people that I communicate with—that there needs to be a concerted effort to improve the credibility of Australia's government system, and politics in general—let's take the individuals out.

Senator MURRAY—Wouldn't you agree, given how hard it is for ordinary businessmen such as yourselves, or even people who are dealing with this all the time, such as us, that it is very hard to get across the 16 bills that are before us at the moment—the entire ANTS package and so on? But the consequence is that you are obliged to take an awful lot of this on trust. Whilst I have heard remarks from you on cash flow, I have not really heard you say, 'Well, sales will be affected in this way, profits will be affected in this way or costs will be affected in this way'—although you did mention costs—simply because it is very difficult to grasp it all and to assess it. You do have to take a great deal on trust, don't you?

Mr Hill—Definitely.

Mr Gallagher—Absolutely, yes.

Mr Hill—Hugh was obviously answering that question on behalf of his 400 members. I do not think there is any question but that a lack of trust exists and that we, the Australian people, will be taking on trust the government's ability to put the package through.

Senator MURRAY—And you do agree that the lack of trust that you and your members feel is probably reflected in the community as a whole?

Mr Birney—I do not think this is anything new. When a constituent sits down with a member and has a one on one, I think that the trust is built up. And I think that, as Hugh said, in generic terms it is quite easy to sit there and bag politicians and governments and what have you. I do not know that it necessarily needs to be given a lot of credence but, by the same token, certainly there is a degree of mistrust out there.

Senator MURRAY—The point is this: you made a very strong case that there should be no exemptions. The business groups we have asked have said yes, and that they would rather that education and health were not exempted either. But, since the government has chosen that, they accept that. I understand their position. The government has said—and it has made a strong case for it—that the impact and effects of the GST will be compensated for by income tax cuts and pension advances. The problem the Senate faces is that the community, or large portions of the community, does not trust the government to leave that compensation in—that is just a fact. Therefore, when you make food GST free, although it makes life a little more complex in administration, at least people trust that that cannot be taken away from them. When you balance up the trust the community has in terms of being compensated for the effect of a GST and the possibility of making it certain for them by securing an area which they regard as a basic in their life, and you as a senator have to appraise that, how are you going to react?

Mr Caulton—There are times when you have to make decisions that you know are going to be unpalatable for the general public. We as people in business know that there are some things that need to be done that the general public may find difficult to understand. A lot of people at the moment are having trouble grasping the enormous profits that Australian companies are making, but they forget that everybody who works in Australia today pays into superannuation funds, which in turn are deriving their income from these major corporations that are making lots of money. A lot of them are not major ones either. How do you sell that perception? It is difficult because you are dealing with perceptions here.

We feel there is a chance here to move taxation ahead and to make it more simple. For years all we have heard from businesses is, 'We want it more simplified, we need it more simplified.' I think it would be a great shame if the Senate did not grasp hold of this and move it forward. If it becomes severely unpopular, the blokes who are in now will be out, another government will come in and then it can be changed again.

CHAIR—Are you encouraging me to vote for it, Mr Caulton?

Senator GIBSON—You are doing well.

Mr Caulton—I have to sell every day. When I try to persuade someone who is already up to there in debt that if he goes and spends another million dollars with me, and if everything goes right and that lease comes up, he will get the drilling and he will be away, he has to trust me. If I am wrong and he is wrong, we are both in trouble.

Senator MURRAY—You have expressed for all of us, regardless of our politics, the difficulties we have whenever there is any major legislation, because we have those agonies as you would expect. Mr Hill, you come from the food industry and you have made a strong point. You are aware that, of the 27 OECD countries that are major economic countries in the world, 23 of them have either a zero rate or differentiate their rate for food. That is 700 million people who are all able to cope with treating food differently to other areas. The simplicity point is readily understandable; it is not contestable. It is obviously more simple to have fewer exemptions, but let us not discuss that. The fact is that businesses and those 700 million people are all capable of dealing with an environment in which food is differentiated. How do you react to that?

Mr Hill—In the case of McDonald's, we have been around for 30-plus years and we will probably continue to be around for another 300. But that does not stop me from sitting here and suggesting to you that if the playing field is not level for everybody within our industry—food, restaurant or whatever you want to call it—then obviously there are some sectors of the industry that are going to benefit at the expense of other sectors of the industry. That is not necessarily going to be the best result for the low income earner or the person that needs the help from a welfare point of view.

Senator MURRAY—Let me put this question to you, and I put it to the Food and Grocery Council. You are aware that all of the business groups talking to us are saying that they want food to have a GST on it. When the question was put to the Food and Grocery Council—that if the Senate and the government decided not to put a GST on food where would they like the definition to fall—he said, 'All in or all out.' In other words, there would not be a narrow definition which would only be fresh foods and others. There would not be a middle definition which would exclude restaurants and takeaways. All food would be GST free. Is your attitude also all in or all out?

Mr Hill—Absolutely, but if you ask me from a McDonald's point of view if I want a GST on food the answer is no—all out, please.

CHAIR—That is a great case for not having a GST in the first place, isn't it?

Mr Hill—That is right. I agree that we need the tax reform and I myself agree with what has been proposed. But I do definitely agree that it has to be all in or all out. For it to be the right thing for the country, probably the answer is that it has to be all in. If you ask me for my own personal profit—please make it all out. To be the best for the community and the best for the country, it has to be all in. Where do you draw the line?

Senator CHAPMAN—Mr Hill is a model citizen.

CHAIR—He is cutting off his nose without knowing what it will do to his face.

Senator MURRAY—I am going to have to leave this to allow space for questions from the others. I thank you all for the honesty of your responses.

Senator SHERRY—Mr Hill, I assume you are a McDonald's operator, from what you are saying?

Mr Hill—Yes.

Senator SHERRY—You have said all in or all out. I am in the all out category, just so you know where I come from. What leads you to believe that a GST is best for the country?

Mr Hill—I am not a politician, unfortunately—or should I say fortunately.

Senator SHERRY—You are a witness, you make a judgment.

Mr Hill—I do not have an enormous knowledge of taxation. I can only go by what information is put before me and what has been put before me in recent times. Currently, the taxation system is not fair and equitable across the board. So, obviously, we need tax reform. There has not been any major tax reform put to the Australian people, with the exception of a GST, in recent years. Would that be fair to say?

Senator SHERRY—Senator Cook referred to some changes earlier.

Mr Hill—Sure, but I am talking about across the board, substantial changes. We have an enormous number of people in our country who have the intelligence to come up with the best tax system that exists. The only one that ever keeps coming up is a GST. It has come up twice now from within the Liberal government.

Senator CHAPMAN—And once from the Labor government.

Mr Hill—There you go.

CHAIR—It never came up with the Labor government.

Senator GIBSON—Option C.

CHAIR—An option was placed, along with a number of other options.

Mr Hill—I cannot sit here and tell you that it is going to work, for the simple fact that it has not been finalised yet. It may change in 100 different ways before you and I ever actually pay tax under a GST. We have to take our politicians and the people that know—the economists and all the rest of it—at face value. We have to trust them to be able to make those decisions for the country—to a degree.

As I said, we have come back to the same result. I am sure we are looking at the results in other countries that have introduced similar tax schemes—the results that those countries have had over the years that followed the introduction of those tax schemes.

I think it is fair to say that any introduction of a new tax system has to be, in the eye of the government, a system that is going to raise as much, if not more, revenue than its predecessor. Would that be fair to say?

CHAIR—That is a disputed point.

Mr Hill—Sure. Logically that stands to reason. How can the government possibly afford to reduce deficit, et cetera, if it does not have more funds the day after a GST introduction than the day before? It has to be able to still cover the costs like any business covers its costs.

CHAIR—In this case the budget is in the surplus and it is taking money out of the surplus.

Mr Hill—The GST is?

CHAIR—No, the package is.

Mr Hill—Right.

Mr Birney—Can I pick up on that point, just quickly. I am certainly no economist, but I think that the theory behind the GST is quite sound. If you charge as many people as you possibly can as little as possible, it stands to reason that you are going to harm nobody but still raise a substantial amount of money. We made the point when we were in the lobby a bit earlier. We said that, if you wanted to raise \$20 million quickly and you charged everybody in Australia a dollar each, you would not really have dispossessed anybody but you would have raised \$20 million. We think the basic theory behind the GST is quite sound.

Senator SHERRY—Could I suggest that you have a look at our first report. I do not want to get into a lengthy debate about the ins and outs because that was not my intention, but I think you will find marginal gains or marginal losses, depending on your view, on a whole range of criteria. I come back to you, Mr Hill. Let us look at the effect on your business. You would not have extensive contact with a wholesale sales tax system, would you—not in a retail food chain?

Mr Hill—No.

Senator SHERRY—Do you understand that you will have an increased compliance paper workload to collect the tax and the rebate?

Mr Hill—Absolutely. This relates to when Hugh was talking on behalf of the 400 members. It was suggested earlier that those 400 members may not trust government. That is not my personal view. Rather, I believe that is what the view of the 400 members of the Chamber of Commerce in Kalgoorlie would be.

Senator SHERRY—There will be an increased compliance cost. You can argue about the size of it—small, big or whatever—but it will increase, particularly for people who are not involved in the wholesale sales tax system. How are you going to recover that compliance cost? You will have an increased cost, whatever it may be. I do not know whether you have got advice from your accountant yet about what you will have to do.

Mr Hill—The point I was alluding to is that I have a lot of people from within the organisation that I am a part of who can provide me with the information that I need to

move as effortlessly as I can through the transition of a tax package. That does not necessarily apply to the person who owns the local fish and chip shop around the corner. I think, on behalf of the chamber, that the chamber needs to be mindful of that for all of its members, not just for somebody who runs a McDonald's restaurant. I certainly do have access to them. My accountant costs me about \$400 an hour, but he also gives me information on a fairly regular basis as to what is happening with the GST and all the rest of the crap along the way.

Mr Caulton—With regard to the compliance costs—and this is why we allude to this \$500 million training and why we want to see it come down through industry groups—as an industry group with 400 members, it is a damn sight easier for us to get them together with the correct taxation advisers in forums like this. They are well attended in places like Kalgoorlie, where a lot of what people need to know on the broad basis of it can be done for them. There are a lot of owner-operators and owner-managers up here. People still do their own books here and their advice—

Senator SHERRY—I understand the process. I am keeping my questions fairly short and sharp; could you keep the answers focused, and short and sharp. I do not want to put words into your mouth either, to be fair to you. We know that in at least some sectors of small business there will be an increased compliance cost. How are you going to recover the cost, whether it be for the fish and chip operator or the McDonald's operator or whoever?

Mr Hill—Within the business that I operate, if we have an increase in cost then there are two ways to recover that cost. One is by increasing the performance of our business—and we are in a position to consistently do that—and the other is by raising prices. The raising of prices is certainly not an ideal scenario and certainly one that I would be strongly against. However, we are in business to make money, so we have to do what we have to do. Senator Sherry, you said you were on the 'all out' side of the fence.

Senator SHERRY—The no side of a GST.

Mr Hill—The no side of a GST in general?

Senator SHERRY—Yes, full stop.

Mr Hill—I thought you were referring to all out being all food in or all food out.

Senator SHERRY—All food out because everything should be out. No GST.

Mr Hill—Fair enough.

Senator SHERRY—The wholesale sales tax is being abolished. The view is put that on 1 July the GST comes in and wholesale sales tax is out. To what extent do you believe there will be a full pass-on of all of the wholesale sales tax removal from the system to the consumer or to your customers?

Mr Birney—I think the market will very much play a part in that. I know we have seen it on the television and heard it on the radio, but I think there is some truth in the argument that the marketplace will indeed set the prices, as it does today with the sales tax in.

Senator SHERRY—That is not an answer to my question. The assumption is that it will happen on day one with 100 per cent price reductions and a full pass-on of the wholesale sales tax reduction. Do you think that will occur?

Mr Hill—Can I just say that it is not actually my industry because I do not have the sales tax component that I pass on to my customers.

Senator SHERRY—But the argument from the government would be that, yes, you do because you pay indirectly a wholesale sales tax on a whole range of input costs and goods. Do you think that cost saving is going to be passed on to you?

Mr Hill—If my business will save money by an introduction of a GST—my understanding is that would not be the case, but if that were the case—I have absolutely no doubt whatsoever that in this state my colleagues and I would certainly vote to decrease our prices—without a shadow of a doubt.

Senator SHERRY—I was not asking whether you would have a vote. Do you believe it is real world that they would pass those cost savings on—GST in tomorrow, wholesale sales tax out, bang, that's it?

Mr Hill—If they do not, are they not cutting their nose off to spite their face? There are people out there who will pass those cost savings on to the customer immediately and, if they do not, they are going to be an overpriced commodity. If I sell a Big Mac for \$5, I can guarantee you that no-one will buy it.

Mr Caulton—If no-one were to pass it on, you would be looking at an average 90-day turnaround of stocks in Australia, so the worst that could happen is that it will run for 90 days—someone is going to make an extra quid for 90 days. I believe that, if they do, they will be breaking the law and if they get caught they will get pinged—and there will always be someone out there who will.

Senator SHERRY—I have one last point. One of you, and I cannot recall who it was, said that 'With a new tax system and cost savings we'll be able to employ more people.' That implies to me that the cost savings will not be passed on, at least in whole; you might take a bigger profit margin and employ more people.

Mr Birney—I said that, and I was referring to expense cost savings. When you are in a sales industry, you look at your cost price and your sale price, and you have a gross profit margin, of course, between them. If we are looking at buying a ream of paper, some stationery, a photocopier or whatever, the GST that we pay on that—as you would be well aware—would be offset against the sales that we make. The net effect of it—as I understand it, and I may stand to be corrected—is that, under today's current sales tax regime, we will become tax exempt. The net effect of offsetting our business inputs against our GST sales is that we will, in fact, get a cost saving. That is what I am referring to.

Senator SHERRY—I disagree, but my time for questioning has run out.

CHAIR—Our allocation for these witnesses is out of time as well. On behalf of the Senate committee, thank you very much for coming along and providing some assistance to us in our inquiry. What you have had to say has been quite useful to this debate. I thank you for that.

Mr Gallagher—We would like to thank senators for coming to Kalgoorlie, which is a long way from where you obviously come from. It is a very rare occasion for us and it is something that I think is worth while.

CHAIR—Thank you.

[2.40 p.m.]

TIELEMAN, Mr Walter John, Chairman, Taxation Committee, Association of Mining and Exploration Companies (Inc)

CHAIR—Welcome. The normal process is for you to speak to your submission—usually reasonably briefly in overview—to summarise the main points for us and then, if you would be kind enough, to make yourself available for questions from the committee.

Mr Tieleman—Thank you for the opportunity to address you today. Initially, I would like to inform you, if you do not know already, that AMEC is an industry organisation which represents the interests of Australian mineral exploration and mining companies. We have over 230 mineral exploration, mining and associate members, people who service the mineral industries, and also individual members. We have a very good cross-section of the mineral industry. The purpose and philosophy of AMEC is to promote in general the interests of mineral exploration and mining and the mining industry in all its branches and to assist in any lawful manner the growth, stability and economic wellbeing of the mineral exploration and mining industry.

Having set that scene, I would like to look in overview at the issues that are confronting us today, which are issues of concern to the members of AMEC with respect to the new tax system currently under consideration. I will not be spending a lot of time talking about the goods and services tax, specifically because there are other issues which are particularly of interest to AMEC. With the increasing globalisation of world economies, it is important for the future prosperity of the mineral resources industry that Australia has a competitive tax system. It is especially crucial to an industry such as ours, which depends on international investment for project funding.

I will look at some of the issues which are of concern to this industry and I will summarise them. Firstly, there is the question of taxation on business inputs. It is clearly a fact that we have been exporting our taxes under the current system that we operate in. The current sales tax system inevitably results in Australian taxes being incorporated into the cost of internationally traded commodities when they are exported. An example is the diesel fuel excise. As a result of that, I think we do lose our competitive edge. In our view, the move to a GST removes all taxes from costs, provided input tax credits are allowed on a non-discriminatory basis. It is therefore welcome to industry.

The next issue that I have referred to in my submission is the question of black hole expenditures. These are certain business expenditures which are non-deductible. The current tax system does not allow for us to claim deductions for these costs.

Senator GEORGE CAMPBELL—Can you give us some examples of the sorts of things you are talking about?

Mr Tieleman—Yes. I think probably the best example of that might be the question of acquisition costs; that is, where a mine has been acquired, in many instances the cost of that acquisition is not deductible for tax purposes. We have seen some fairly big examples where that has happened. In our view, particularly with the mining industry where you have

wasting assets, that is of concern. For example, if a million dollars were spent on the acquisition of resources, that is a wasting asset, but there is no provision under current tax law for us to obtain a tax deduction, even over the life of the mine, for those sorts of costs. These are the black hole expenditures that we refer to. We have seen situations where those costs have, in some cases, been in excess of \$100 million—no tax relief provided.

The next issue that we have referred to is GST coverage and issues associated with the GST. As an industry body, we endorse the government proposals for the introduction of a GST. In our view, the GST exemptions should be limited and have as broad a coverage as possible, so as to limit the scope for avoidance and ensure that rate increases will not be necessary.

I think there has been a perception that sales tax has been used as a vehicle for modifying behaviour or for social change. If a GST is going to be broadly based, have a broad application and be limited in terms of its exemptions, I think that would get away from that type of issue being of concern to us. In particular, I suppose that means we, as an industry, do not approve of the exemption for food. That is probably all I would say on the GST.

One big issue that is confronting our industry at the moment—and we have seen some discussion of changes in this area—is capital gains tax reform. We have heard a lot recently about how foreign investors are put off by our capital gains tax regime. I suppose there is an element of truth in this in the sense that they relate it to the more concessionary tax regimes for the taxation of capital gains that they have in their own country.

We have a situation here where full income taxes are levied on capital gains. Furthermore, we find that the capital gains tax regime is a crushing force against the restructuring often necessary to raise development capital within companies. I have given an example in the submission—this example comes up time and time again—where a prospector has tenements which have some promise and, in order to develop those further, it is necessary that additional capital be raised. The most likely source of that development capital is through a share exchange where the vendor sells his tenements to a company and generally what he gets back is shares—he does not get cash. In that situation, he has sold his tenements and, if there is a capital gain there, he will pay tax on the capital gain, but the shares indeed are escrowed, which means that he cannot sell those shares. He has no capacity to liquidate cash in order to pay his present tax liability. That, to our way of thinking, is an impediment to the development of this industry.

Senator MURRAY—Just a point of clarification: escrow of shares you cannot use to raise collateral, can you?

Mr Tieleman—No, that is correct. They are quarantined.

Senator GIBSON—How long are they normally escrowed? What is the normal procedure?

Mr Tieleman—You would be looking at two to three years. That is a concern that we have with the current capital gains tax regime. There are particular rollover provisions that go some way to addressing those concerns but, unfortunately, do not go far enough.

With the bogey of inflation largely killed off by successive governments, indexation has limited value. This is seen in the context of, say, foreign investors looking at investment into Australia who would not see indexation particularly as a concession that would be provided. One problem that we see with foreign investors looking at Australia as a place for their investments is that they see that visible taxes are high, particularly the corporate rate of tax at 36 per cent. That, for them, is an immediate turn-off. They then do not give us the privilege of basically analysing the overall tax burden. If they did so, they may well find that our tax system is nowhere nearly as high as perhaps some of their own countries of residence.

This industry has relied to a large extent on continued research and development to enable it to be competitive in the long run. The industry, therefore, would want to see the reintroduction of the 150 per cent research and development tax concession. It is our view that this will be not only of benefit to the mineral resources industry, specifically the producers, but also of benefit to those who are on the service side of the industry. We as an industry are exporting a lot more of our services than we have in the past. In our view, research and development and providing incentives to carry out that research and development will not only maintain our competitive edge in developing our own resources but also maintain a competitive edge for our services.

I would like to turn to the question of deductions for capital expenditure. The mineral resources industry is particularly capital intensive. We have large capital outlays with respect to the development of our projects. There is some consideration being given at the moment to reducing what may be seen to be concessions in terms of the deduction rates available for such capital expenditure. I think it would be fair to say that, if we were given the choice, we would see a 36 per cent tax with the current deduction rates as being more attractive than a 30 per cent rate without those deduction rates. In our view, we cannot see the current deduction rates as being particularly concessionary.

Capital expenditure is generally allowed over the life of the mine, and that is a proper allocation of those costs to the revenue being generated. We would therefore be particularly concerned about any change in those deduction rates to anything other than an allocation over mine life.

Taxation of financial arrangements is a matter which has been under review by success governments since December 1993, from memory. We are getting somewhere close now to having a system which would apply to the taxation of financial arrangements. It is a rather complex system which is being proposed, but there would appear to be a move on the part of the policy makers to impose taxes on gains which have not yet come home. It would be disastrous to apply such a regime in an industry which suffers the volatility of commodity prices. The taxation of financial arrangements regime could well result in companies paying taxes on profits which are merely illusory. Those unrealised profits could be there at the end of this financial year but may have completely disappeared at the end of the next financial

year, particularly so when talking about the pricing of commodities. There are many vagaries attached to commodities pricing.

We have numerous examples of where that has happened—where, under accounting policies, companies have been required to book their market to market profits or losses—and that has resulted sometimes in many tens of millions of dollars of income or loss. That has then been followed immediately by the elimination of that income or loss because of a small movement in commodity prices. Therefore, we would resist any move that TOFA would impose on us to require those unrealised profits or losses to be brought to account. If the result of TOFA is that mining producers do not because of the tax situation hedge against commodity price movements, then we could well find that a number of producers will fall over, because it is absolutely essential to that business that they maintain hedging.

To finish briefly, company tax on distributions is an issue which does concern the industry. This is the proposal whereby all distributions will be subject to tax, whether they are franked or unfranked dividends. We understand that there will be a tax liability on the part of the company to pay the tax on the unfranked portion of dividends. In our view, that will simply eat into their cash reserves. That will potentially reduce the dividends that are paid to company shareholders. If dividend levels are reduced, then obviously shareholder wealth also declines. So it is with some concern that we see this change being proposed with respect to taxing all company distributions.

There is one final area of concern that we have. We see a number of companies expanding overseas—they have foreign development projects on the go. Australia has a reputation as being a mining industry nation. I suppose we have a very long and proud history in that area. There are a number of companies on the Australian Stock Exchange which currently have activities not in Australia but overseas. A lot of those companies also have a majority of overseas shareholding. It is desirable that we retain those companies within Australia for many reasons, not only for the continued maintenance of our competitiveness within the global mining industry. We find that a combination of various provisions within our tax legislation would militate against those companies making a decision to remain here, to have their home in Australia. That is of some concern. We have already seen companies with a majority of overseas shareholders and with overseas projects moving out of Australia and choosing to list on other exchanges throughout the world. That concludes the formal part of my submission. Thank you.

CHAIR—Thank you, Mr Tieleman. A lot of what you have raised is, of course, covered by the Ralph inquiry, which is not directly what we are inquiring into in this committee. Nonetheless, this is an opportunity for you to put your views, probably under the heading of changes that you would like to see in the tax system generally. I am sure all of us will listen to them because sooner or later we will deal with whatever the government decides to do about the Ralph inquiry. Are you suggesting to us that we should not proceed with dealing with the bills that are before the Senate under the rubric ‘not a new tax, a new tax system’ until all of the changes to the tax system, that is, those which will be dealt with by Ralph, are equally before us?

Mr Tieleman—No, I am not suggesting that. I think that we need to get the GST component of the new tax system bedded down and understood at this time. To defer the

consideration of that would be to throw too much on industry; there is too much already in terms of what we have to come up to speed with. My quick answer to that is no, I do not believe that that would be desirable.

CHAIR—Some of your remarks did relate to the package before us. To the extent that they do, are you asking us to report to the Senate that they are changes you would like in the legislation?

Mr Tieleman—Yes, that is correct.

CHAIR—The next question is a harder one. To what extent would you like the changes—to the extent that unless you get them you will not support the package? Or will you still support the package even if you do not get them?

Mr Tieleman—I think we would still support the package even if we did not get them because it is a movement in the right direction.

CHAIR—Thank you.

Senator GIBSON—I reiterate what the chairman just said to you about the business issues which are part of the Ralph review. Has your organisation put submissions to the Ralph committee about business tax or do you intend to do so following the release of the third discussion paper this week?

Mr Tieleman—We will be making submissions to the discussion paper which has just been released. We chose not to do so on the first discussion paper; it was more on general policy considerations. But we do intend to respond, I think, to the second report, which we have just got hold of.

Senator GIBSON—I assume you will include the black hole expenditures as an item in those business tax issues.

Mr Tieleman—The Ralph report makes some comments on the black hole expenditures, so we do find some support in there at this time for that proposal.

Senator GIBSON—Returning to our brief—the indirect tax, the income tax and the excise tax changes—I am pleased to hear you say that you are basically in favour of a GST because it favours lower costs for exports; we have been exporting goods with embedded taxes in them. That is one of the key reasons the government has been pushing this—all businesses in Australia will have lower costs, particularly those businesses that export. Transport, particularly road transport, is one sector which will be very significantly affected by lower costs. Is that a significant input in your companies?

Mr Tieleman—Transportation is most definitely a very significant input. We are looking, obviously, largely at remote locations where the reliance on transportation is a very large component of the overall cost. It would be fair to say that the overall costs of transportation ought to be reduced, as a result of the introduction of a GST, to an extent

which will enable those transportation companies to ensure that they do not need to cover the costs of any embedded taxes which they cannot otherwise recover.

Senator GIBSON—This committee has had advice from the Australian Road Transport Forum—which is basically the large truck operators—suggesting that, whilst Treasury in this document suggests road transport costs will go down by 6.7 per cent when things even up across the board for Australia, trucking costs will go down by between 15 and 19 per cent with the 22 per cent wholesale sales tax coming off trucks, equipment and tyres, the excise of 25c coming off and a further seven cents GST off fuel. This morning, one of the witnesses suggested that the competition on the main highway routes will drive those costs down by, say, 15 per cent to 19 per cent fairly quickly because there is very intense competition on the main routes. But there is not much competition in the outback areas, which I assume are where a lot of your companies operate. Have you any comment about that?

Mr Tieleman—No, I have not. I must admit that I am not an expert in the transportation area. But most definitely, competitive factors will, in some areas, mean a much greater impact on the reduction in costs than in other areas. I would probably subscribe more to the view that in the more remote areas the reductions will not be at the level of 15 per cent to 20 per cent but more at the level that Treasury might have indicated.

Senator MURRAY—AMEC covers the smaller end of the mining and exploration field, doesn't it? A lot of small companies are members.

Mr Tieleman—That is correct, although I would say we also have within our members some of the largest producers in Australia.

Senator MURRAY—Is it true that within your organisation you have prospectors, small family businesses, small mines and medium mines, all the way up to the very big mining companies?

Mr Tieleman—That is correct.

Senator MURRAY—One of the things we have to examine is the issue of trusts. Do you know whether many of your members have trust structures under which they conduct their business or investment activities?

Mr Tieleman—Yes. They are small businesses and they generally operate through trusts.

Senator MURRAY—Do you have any views you can expound to us on the government's proposals in the ANTS package on trusts and the way in which they plan to tax trusts and their approach to trusts?

Mr Tieleman—I suppose my primary role here today is to represent the mining industry. To the extent to which our members would be operating through trusts, it is relevant to respond to that question. We have seen trusts as a valid structuring entity. In 99.9 per cent of cases, it is never used for the purposes of tax minimisation or tax avoidance. To our way of

thinking, to apply this proposal to tax trust distributions within the trust is something which goes beyond the pale for something which is typically just a family based type of structure.

Senator GIBSON—I just seek clarification following on from Senator Murray's query to you about use of trusts by these small companies. Are a lot of them using the trust as the operating business entity or is it being used as the entity for holding assets and there is an operating company that actually runs the business?

Mr Tieleman—Generally, the trust vehicle is the only one that is used. It will either be an individual, a company or a trust that will operate the business. The reason for that is that these are generally small businesses that cannot afford to have too much compliance cost and running a company as well as a trust. So generally it will be a trust operating simply as the trust with no other appendages to it.

Senator GIBSON—Thank you.

Senator MURRAY—I just noticed in your submission that you had not really covered that field. I wonder, if it is not an imposition, could you take it on notice and put a supplementary submission to the Senate as to AMEC's views on the government's proposals with regard to trusts and how those should be amended and why. You might accept them, it is up to you. Could you perhaps sketch out for us a typical way in which a trust operates in this business. You might want to distinguish between prospecting businesses and mining operation businesses. If that is not too much of an imposition, I think it would be helpful.

Mr Tieleman—Certainly.

Senator MURRAY—The other question I have is in terms of priorities. You went through a catalogue of issues you want dealt with but I was not sure from that where you laid the greatest priority, the greatest urgency, from the point of view of the mining industry. Is there a particular area in which this committee can reasonably put a view that you have a priority?

Mr Tieleman—Yes, the one that would be of most concern to us at the moment, because of the current state of the commodity prices and the market, would be capital gains tax reform. As an industry, we have endorsed the GST so that does not come up as an issue for us. That would then be followed by the question of black hole expenditures. I accept what has been said with respect to the Ralph committee, and that they have taken that on board. I think we will see things develop from there with respect to black hole expenditures. Finally is the issue of the taxation of financial arrangements. That is coming quite close to fruition yet it still has some very big concerns for us as an industry.

Senator MURRAY—I want to ask you about timing. As you know, the bulk of this package will come into play on 1 July 2000. It is possible—and I do not know that this is what the government is going to do—that the government could receive the final Ralph report at the end of June. They could construct legislation before the end of that calendar year and have it debated the following year for implementation also on 1 July 2000. You would then have the weight of the ANTS package plus the Ralph package coming in at the

same time. I must stress to you that the government have not said that, they have not implied that, they have not inferred that, but it is a possibility.

In the answer to Senator Cook's question, you indicated that you need time—in my own words—to absorb these things as professionals, as business people, as tax persons and so on. If the government were thinking in that way, would you prefer that the Ralph changes were delayed a further year or would you accept that they might come in on 1 July 2000 along with the ANTS package?

Mr Tieleman—That is somewhat dependent on what the Ralph committee comes up with. We have seen that it is a tortuous route implementing proposals that governments have put up for changes to the tax system to date. They have required quite a lot of discussion, and there has been a considerable amount of training and time to come up to speed with those changes. Often those changes have not been implemented in the form in which they were originally introduced. That is of concern to us.

But, getting back to your particular point, it would be very difficult for business to cope with all of these changes coming into effect on 1 July 2000. I think the comment has been made previously that we have got Y2K on 1 January 2000 and GST on 1 July 2000. Eighteen months for the introduction of a GST is quite a reasonable amount of time for businesses to come up to speed, but do not underestimate the amount of work and the amount of training and systems work that will be needed to ensure that there is a proper introduction of the GST on 1 July 2000.

Senator MURRAY—Professionally speaking, it is a question of resources. Do you believe that the professions are sufficiently resourced to take on a sudden surge of work like that? I mean, there are only so many accountants and consultants—you cannot suddenly expand them.

Mr Tieleman—I would have some confidence that the industry bodies will be able to deal with the issues. The concern, I suppose, is that Y2K, and the introduction of a GST, are both computer systems based—in other words, to fully comply under the GST regime, small businesses which are currently not computer literate will probably have to be. They will have to do that through their own resources. A considerable amount of work would need to be done if they do it through their own resources, train up their people, and skill themselves up. Those businesses which are used to sales tax will have to change their whole mind-set to go to GST.

The accounting bodies and accounting practitioners will inevitably have a great deal of involvement in that transition taking place. It is quite difficult when you see Y2K and 1 July 2000 start up for GST come in at the same time.

Senator MURRAY—And maybe Ralph.

Mr Tieleman—Add Ralph to that and we are talking about complete changes of structures, potentially, in order to comply. Yes, it becomes quite difficult to imagine that there would be a smooth transition.

Senator MURRAY—My last question is as follows: if with some items it is already evident that Ralph has agreed, determined or indicated, and if people such as yourselves are indicating certain areas—for instance, the capital gains area—it may be better for the government to introduce that sooner rather than later?

Mr Tieleman—Yes. Most of the work with respect to the introduction of GST is going to occur over the next 15 months or whatever it is. We are seeing now the amount of effort that is going into training, and it seems interesting to me in observing this that so much work is going into this obviously on the basis that it is a *fait accompli*. That work is actually happening now. If we were to introduce other changes within this period leading up to the GST, I think it would make it quite difficult.

Senator MURRAY—That is all I have.

CHAIR—You are obviously not an aficionado of Sir Roger Douglas who believes in bite the lot off at once, because you encounter the same degree of resistance for each little nibble you take.

Mr Tieleman—Yes, that is correct. But, again, from the point of view of understanding the full implications of this vast change that could happen in our taxation system, accompanied with the changes that we have seen over the last two years, it is a minefield. It is mind blowing, almost.

Senator SHERRY—Taking up that last comment that it is a minefield and is mind blowing, you have talked about not underestimating the amount of time and effort with respect to a GST. What is your evaluation of the costs involved?

Mr Tieleman—That is quite a difficult one to really put a figure on. I do not know of any studies that have been done in that area. I would, however, suggest to you that there will be quite considerable additional costs to start with, but one would expect that the costs of compliance of a GST will be substantially less than they would be under the current sales tax regime that we have, notwithstanding that we will have many more taxpayers.

Senator SHERRY—Would you argue reduced compliance costs for all businesses?

Mr Tieleman—No, I would not. There are some businesses that presently have no obligations in terms of sales tax; there are other businesses that do. Inevitably the burden will fall on some businesses more than others, and on others there will be less burden.

Senator SHERRY—I think there are approximately 70,000 to 75,000 businesses involved in collecting wholesale sales tax. The number of collection points for a GST increases to 1½ million, so there is a fair expansion in collection points for tax, isn't there?

Mr Tieleman—Most definitely.

Senator SHERRY—In your written submission, you have GST coverage and issues, and you say:

. . . there are issues which need to be addressed to clarify its application to the mining and exploration industry, for example, domestic gold sales, sales of tenements.

Going to those two that you have mentioned, and you may have some other examples, what are the specific concerns that you have in the application of a GST in those areas?

Mr Tieleman—I think it is more of an issue of clarification of our understanding of how the GST would work in those circumstances. With respect to domestic gold sales, as we understand it, a producer selling, let us say, unrefined gold, gold dore, gold bullion to the refiner would impose GST at that level on the sale of their gold to the refiner. The refiner would secure an input tax credit for that GST that they paid, and then, on the delivery of that gold from the refiner to the dealer, the first delivery of gold that takes place we understand will be GST free and therefore input taxed as far as the dealer is concerned.

The flow there is quite prescriptive in terms of the legislation. As an industry, I suppose we would be concerned that there may be circumstances where that flow does not occur in exactly that way. For example, what if the gold producer were to retain ownership of the gold and it were refined under a contract basis by the refiner and then delivered directly to a dealer, perhaps to an overseas dealer?

I compare it with what we see in New Zealand and their GST regime where the internationally traded commodities are simply GST free on sale, which seems to be quite a simple solution. What we have here is a multi-layered flow of events. We have got to understand that, for example, in the case of gold, it is an internationally determined price. We cannot put gold on the market at a rate which includes the GST component and expect to sell that internationally, because we will not. From our perspective it is clarification that at no stage will there be a GST cost because we know that that will be in some way or other passed back to the mineral industry, the producer.

Senator SHERRY—Obviously you prefer the New Zealand approach.

Mr Tieleman—Yes. We believe that that has some simplicity.

Senator SHERRY—Is this just applicable to mining or is it applicable to other minerals as well?

Mr Tieleman—It is specifically directed to mining.

Senator SHERRY—Is it applicable just to gold or is it applicable to other minerals?

Mr Tieleman—It is applicable to precious metals.

Senator SHERRY—Okay. The sales of tenements—

Mr Tieleman—Again, confirmation that the sales of tenements, as we understand it, are part of a composite package where stamp duties will be eliminated. It will obviously be quite advantageous to the minerals industry to see stamp duty eliminated on the sale of tenements,

but we would want to ensure that at no stage would it mean that there was a GST component in the sale of tenements that could not be recovered by a purchaser.

Senator SHERRY—And you do not believe the situation is clear at the moment?

Mr Tieleman—Again it is just a matter of clarification. These are typical transactions which take place within the industry. Let us assume, for example, we have a sale of a tenement for \$1 million. We were referring previously to the sale of tenements for escrowed shares. The vendor may receive \$1 million of escrowed shares. He will have to impose a \$100,000 GST on the disposal of those tenements. We would want to ensure in that circumstance that the tenement holder has the capacity to pay that \$100,000 of GST and that the purchaser, the company, will be entitled to an input tax credit for that \$100,000 of GST.

Senator SHERRY—You refer to clarification. Have you actually formally sought written advice on these issues?

Mr Tieleman—No, we have not at this stage. These are issues which have been aired in discussions with government but still are issues which nobody has really sat down and thought through all the implications of.

Senator SHERRY—If you do not get a clarification that is satisfactory, do you want the package amended in the Senate?

Mr Tieleman—Most definitely.

Senator SHERRY—What if it is not?

Mr Tieleman—We would have to factor that cost to industry and to our overall determination of whether the package is good or bad for industry.

Senator SHERRY—I think we would appreciate a copy of these problems which are outlined and their ramifications for our consideration.

CHAIR—I am sorry about this, but we are running out of time. However, Senator Campbell and Senator Chapman have not had questions, so which one of you wants to ask a question?

Senator CHAPMAN—I want to follow up an issue with Mr Tieleman. Why do you believe escrow shares would attract a GST? Normal share transactions would not attract a GST. They are not goods or a service.

Mr Tieleman—That is correct, they do not. But what we are talking about here is the disposal of a tenement which is an asset which is subject to GST. The consideration a prospector receives is shares. But the fact that you may sell goods for shares does not mean that you obviate your need to pay a GST.

Senator CHAPMAN—A tenement comes under the definition of goods, does it?

Mr Tieleman—Yes, that is correct. Clearly, there is a GST imposed on that.

Senator GEORGE CAMPBELL—Are you aware that the Treasury's modelling of the ANTS package has demonstrated that there will be a three or 3½ per cent appreciation in the exchange rate as a result of the implementation of the package? What is the likely impact of that on members of your organisation?

Mr Tieleman—Members of our organisation would generally find that in relation to exchange rates improvements, as far as the Australian dollar is concerned—because their disposals of product are in US denominated currency—their sales revenue translated back into Australian dollars will be less. So one would expect that would have an impact on profitability. On the other side, to the extent to which their inputs are in a foreign currency such as US dollars, they would secure a benefit from the improvement in the Australian dollar. Overall, it would probably be fair to say that such exchange rate improvements would have a negative impact on profitability. I am sure that Treasury operations within the companies concerned would be doing their best to ensure that the impact of that is minimised.

Senator GEORGE CAMPBELL—When you say the inputs would be in American dollars, can you give us some examples?

Mr Tieleman—I would not want to put a figure on that in terms of—

Senator GEORGE CAMPBELL—Would that be, say, purchase of equipment?

Mr Tieleman—Yes, the purchase of equipment and the purchase of consumables such as cyanide. There are a number of inputs into the mining industry which can only be sourced overseas and which will generally be in that overseas currency.

Senator GEORGE CAMPBELL—Has your organisation done any detailed examination of the likely balance of what you may save in terms of inputs vis-a-vis the impact of a depreciated currency on your industry?

Mr Tieleman—We have not, no.

Senator GEORGE CAMPBELL—Are you likely to do anything or are you just going to wait and see what the end result is?

Mr Tieleman—It is a question of resources as far as our organisation is concerned. It would be unlikely that we would have the resources to do that type of study.

Senator GEORGE CAMPBELL—So, really, it would be a question of waiting and seeing down the track whether or not the balance falls on the right side or the wrong side?

Mr Tieleman—That is correct.

Senator GEORGE CAMPBELL—You spent a fair bit of time in your submission talking about the capital gains tax regime. As I understand what you are saying in that area,

you want reforms that are pretty much targeted at using the capital gains tax regime to attract investment. That would be a much more narrow approach than what has been discussed this week arising out of the release of the first part of the Ralph review. Is that correct?

Mr Tieleman—No, I do not think so. We are talking about something which is much broader than what the Ralph review might be looking at particularly.

Senator GEORGE CAMPBELL—I thought in your submissions you were specifically looking at changes that would attract international investment for project funding.

Mr Tieleman—No. Subsequent to that you will notice that we refer particularly to restructuring. Here we are talking about assets being vended into companies. These are simply domestic types of transactions which are taking place every day, and that is where we would need, in our view, some reform of the capital gains tax provisions. Foreign investment was certainly one of the issues that were discussed, but we think it needs to be far more broad ranging than simply foreign investment.

Senator GEORGE CAMPBELL—But essentially you are talking about the area of development capital?

Mr Tieleman—Yes. We are talking about Australian initial public offerings, IPOs. That is where we have got a resource which has been identified by a prospector, he does not have the capacity to develop that resource and it needs to be developed in order to get its potential. That is simply an Australian transaction attracting Australian investment funds.

Senator GEORGE CAMPBELL—In respect of the other issue of research and development, are you essentially saying that you do not believe the current research and development provisions are adequate?

Mr Tieleman—We believe that an added incentive is required in the area of high risk research and development. Research and development is about spending money today for benefits that will be achieved in the future. It is about things that you cannot currently identify that you will get a benefit from but you certainly hope to do so, and in that environment I think you do need to have the added incentive.

Senator GEORGE CAMPBELL—So you are saying the current START program is not meeting the needs of your industry?

Mr Tieleman—That would be quite correct.

CHAIR—That concludes our questioning. I was going to ask you a question about section 23(pa) of the tax act. Just so that we can mark the *Hansard* and I can come back to this, are you still in favour of amending that in the way in which I moved an amendment in the Senate last year?

Mr Tieleman—Yes, Senator Cook. We have not deviated from our concerns with respect to the current provisions dealing with the prospector exemption.

CHAIR—Okay. I will not pursue it any further. Thank you very much for your evidence and the assistance you have rendered to the inquiry.

[3.33 p.m.]

McKENZIE, Mr William Thomas, Vice-President and Head Coach, Kalgoorlie Amateur Swimming Club

CHAIR—Welcome. We have your submission. The normal procedure is for you to address us briefly on it if you choose and then be available for questions from the committee. I point out that two of us have to leave at 10 minutes to the hour, so, on the assumption that your overview will be reasonably brief, I will ask those senators who are departing to question you first.

Mr McKenzie—Thank you for this opportunity. I came into the picture late in the scene as far as the swimming club is concerned and making a submission to you, and I apologise for that. But I think the submission I am going to make to you today is not going to be any different from what any non-profit organisation is going to make to you: it is one of concern.

The concerns are these: First, a GST is going to put up prices by whatever the amount is—and I know you will all argue about how much that is—and the only revenue base we have by and large is our membership. So the membership costs will have to go up—there is nowhere else we can get money from. I have outlined in my submission to you that we have revenue sources of membership fees, fundraising, sale of some clobber that the kids wear, and grants from statutory bodies such as Health Ways. But the prime source of income is from our membership, and if our costs go up then obviously our fees will have to go up.

I have written into my submission to you a bit of an experience that we had a couple of years ago where we had to put our fees up and the local council had to put admission fees up, which meant that we dropped about 40 per cent of our members. That is a fairly considerable drop. If those sorts of increases happen again I will be down to 20 or 30 swimmers. That is a real shame, not only from the point of view that it will not progress swimming but that the sport keeps kids off the street. I think that we should not lose sight of the fact that there are a hell of a lot of people in this town doing a lot to keep kids off the street. Everyone is always screaming and shouting and saying, ‘They are all bad and they are all no good,’ but I have, as a defence lawyer, never represented one kid in this town from the swimming club—they just do not get into trouble. There must be something in that; I am not sure what it is.

The other thing that is of great concern to us is who is going to do the paperwork. If the swimming club and non-profit organisations such as ours are going to be subject to copious quantities of paperwork, I think you will find that people who accept these honorary positions of treasurer, or whatever the position is called in an organisation, will simply shy away. Most constitutions require various numbers of officer-bearers, and if you cannot have those office-bearers then the associations will fold. That may seem to be a bit of a far-fetched argument but, quite frankly, I do not think it is. We struggle every year to con someone into becoming the treasurer, and all they have got to do is keep a few books. When it is going to come to the point where you have got to fill in copious quantities of returns and tax returns, or whatever they are going to be, people will shy away.

If the legislation that goes through also requires criminal sanctions for people who do not comply, they will shy away even quicker. They will simply say, 'I am not going to do it, because if I don't do it properly then I am in trouble with the law. No, McKenzie, I'm not going to have anything to do with it.' So at the end of the day we will struggle—and all of the organisations in this town, I think, will struggle—to get people into positions to do what we are currently doing, because all of sudden there is going to be an impost of further and complicated, I would suggest, paperwork.

You may all be able to assure me that that is not going to be the case, and I hope you can, and I hope it does not ever come to that. But that is of great concern to us, and I am sure it is of great concern to a lot of people who are involved in voluntary organisations such as I am. We do not get paid anything at all—it just costs, and it costs you a lot in time. If there are those other problems I have alluded to they are just going to make people less interested in participating.

I do not know whether I am right, but I understand that if you do any fundraising and you sell tickets then you might have to be paying GST on your fundraising tickets. You all know what a chook raffle is on a Sunday night, or a Christmas hamper. If those sorts of things have to be done, then again people just are not going to be bothered doing them. That again reduces the revenue base and just makes things harder and harder for the clubs to survive.

Regarding out of town excursions, we take our kids away on three trips a year. If the costs of going out of town go up, obviously it is then a concern about whether or not parents can afford for the kids to go. There is no simple solution to that. Any cost rise will make it less easy for people to send their kids away.

Senators, really everything is in my submission that I can think of. If you have got any questions, I am more than happy to have a whack at answering them for you.

CHAIR—Let me ask you a very difficult one. Were you in the Cottesloe to Rottneest swim on Saturday?

Mr McKenzie—Yes, I was.

CHAIR—How did you pull up?

Mr McKenzie—Bloody sore.

CHAIR—Where did you finish?

Mr McKenzie—I finished tenth.

CHAIR—Congratulations. Any questions, Senator Gibson?

Senator GIBSON—Thank you, Chairman. That was the important bit.

Mr McKenzie—I have still got the sunburn to prove it.

Senator GIBSON—Thank you for coming along. We are pleased to see you. Were you aware that, for charitable activities like sporting clubs, if your turnover per annum is less than \$100,000 then you do not have to register for GST?

Mr McKenzie—No. But are we a charitable organisation?

Senator GIBSON—Yes, sporting clubs are included—charitable or community. If your turnover is less than \$100,000, you do not have to register. Therefore, membership and basically all your activities will not be taxed.

Mr McKenzie—So we will not have any of those concerns that I have raised?

Senator GIBSON—No, that is right.

Mr McKenzie—That is a very good issue.

Senator GEORGE CAMPBELL—Except that if you do not register, you will not be able to claim the inputs on anything you purchase.

Senator GIBSON—That is right. That is the quid pro quo. For businesses, the threshold is \$50,000, but for charities and community—

Mr McKenzie—We turn over about \$40,000 a year.

Senator GIBSON—For charities, public benevolent institutions, community groups and religious organisations their threshold is \$100,000. But you have a choice for those organisations. You may wish to register—if you want to—in order to claim the input credits, as George Campbell said. But if you want to stay outside and not be involved at all—

Mr McKenzie—So you pay all the 10 per cents and get nothing back.

Senator GIBSON—Would you have many inputs—

Mr McKenzie—I think we will. As I said, we buy bathers, we buy goggles, we on-sell them. It would certainly be preferable from my organisation's point of view to cop that and keep it simple. There is no doubt about that in my mind because of all the concerns I have just discussed with you. No, I was not aware of that and thank you. It will make our club a lot easier to run if we are aware of that.

Senator GIBSON—You make a very valid point because it is difficult to get people to run these organisations which are very important.

Mr McKenzie—I do not know how many organisations in this town would have a turnover of greater than \$100,000. I would not think there would be a lot in a strictly amateur sense. The basketball association probably do, but they run a team in a state league so they are probably not, strictly speaking, amateurs anyway.

Senator GIBSON—I think that was the intention anyway—to try and free up all those organisations.

Mr McKenzie—What about criminal sanctions if we do?

Senator GIBSON—I do not know anything about that.

CHAIR—If you do what?

Mr McKenzie—If we do apply to get our inputs back there will be criminal sanctions if one does not comply with the act, I presume.

Senator GIBSON—I presume so—if you register.

Senator CHAPMAN—You would not be subject to criminal charges if you had made an innocent mistake, I would not have thought.

Senator MURRAY—I was just interested in the analogy of the 40 per cent drop. Did your membership recover or did you lose that 40 per cent forever?

Mr McKenzie—Gone. Whether it is forever or not we do not know. It only happened a couple of years ago and we have not recovered.

Senator MURRAY—If the increase in your costs was difficult for you to bear, you would have to pass those costs on, wouldn't you?

Mr McKenzie—We have got no option.

Senator MURRAY—You would have to sell the goggles for more and the bathers for more.

Mr McKenzie—No option. Like most organisations of our kind we do not have money coming from sponsors or beneficiaries of any great amount. All we get is the revenue we get from our membership. At the end of the year we try and end up with a square ledger: we have not lost any money but we have not gained any either. So there is no great fund backing to fall back on. At the end of the year we will have a couple of thousand dollars in the bank, and at the end of next year we will probably have a couple of thousand as well. So any fund increases just simply have to be passed on. The worry in that is that there is always the case where some parents just simply say that they can longer afford it.

Senator MURRAY—It would be a correct judgment, wouldn't it, to say that—regardless of whether the ANTS package is good for the country or not—for a club like yours if you register you have got very material downsides, which you have outlined, and if you do not register your costs are going to go up. That is the simple fact.

Mr McKenzie—That is right.

Senator CHAPMAN—Can I just clarify that. Your costs would only go up on these items that you sell. Are there any other costs?

Mr McKenzie—They would also go up on things like entry fees for kids to pools. So to go to training, if it was \$3.20 I imagine it is now going to be \$3.50.

Senator CHAPMAN—Because that is run separately from the club?

Mr McKenzie—Absolutely. Our club only can participate in council owned facilities. There is only one pool in town and that will continue to be the case. If the costs of going into the pool go up by 10 per cent that is another burden that mum and dad are going to have to cop. If they have two or three kids, that is an extra dollar a day for the kids to go training. That is one session—if they go twice it is two dollars a day. At the end of the day that is \$10 or \$20 a week.

Senator MURRAY—So from your point of view it is important that the council is also GST free?

Mr McKenzie—It would be marvellous if the entry into the pool for our club members was GST free. Whether the council is or not, I do not know.

Senator MURRAY—You would not regard the provision of a swimming pool service by the council, even if they do have a fee, as a commercial activity, would you?

Mr McKenzie—I would not, no. It is generally a loss making situation and they are only charging you a percentage of their losses.

Senator MURRAY—This is the argument that is being had. Local governments are saying, ‘We are not conducting commercial activities; we are recovering some of our costs, sure, but we are providing a service.’

Mr McKenzie—I think the local swimming pool here loses about \$200,000 a year. Our kids paying to go into that pool is not recouping all of their costs; only part of them.

Senator MURRAY—As a leading member of your community and as a person intimately involved in the use of council facilities, I understand you therefore to be saying you support the council’s drive to be GST free on the services it provides.

Mr McKenzie—Yes.

Senator GEORGE CAMPBELL—If you did not have the local council swimming pool, if they did not provide that community service, where would the kids in this area go to learn to swim?

Mr McKenzie—Nowhere.

Senator GEORGE CAMPBELL—They would be denied that facility?

Mr McKenzie—There is nowhere. We do not have a beach; we do not have a lake; we do not have a river. We are a bit of a water-free zone here. There just simply is nowhere to swim, except in the local pool.

Senator GEORGE CAMPBELL—It is fair to say that a kid that lives at Cottesloe Beach can learn to swim GST free whereas a kid in Kalgoorlie can only learn to swim with the GST applied to it?

Mr McKenzie—I would not have put it that way, but I guess you are right. You just do not have any free available water space in Kalgoorlie to swim in—qualified, I guess, by saying that if we get a cyclone come down and dump some water in the lakes we might have some water in the lakes for 18 months, but generally no, we do not have anywhere to swim that is free.

Senator GEORGE CAMPBELL—Would there be many sporting clubs or community clubs like yours in the Kalgoorlie area?

Mr McKenzie—My guess is there would be 40 or 50.

Senator GEORGE CAMPBELL—A similar sort of size, providing similar type facilities for kids?

Mr McKenzie—We have a lot of sporting clubs in this town—some much bigger than ours and some a lot smaller than ours. Netball is probably one of the more numerous in members. There is just a lot of clubs. Almost any sport you can play is played here, with the exception of sports that need a lot of water like surfing or canoeing or anything like that.

Senator GEORGE CAMPBELL—They would all rely on council facilities?

Mr McKenzie—In the main. Sportsgrounds, running tracks, cricket pitches, football ovals, tennis courts—all of those sorts of things. Almost to a T, they will be provided by council in some way or another.

Senator GEORGE CAMPBELL—If the council charges for those facilities, then the GST will be applied to them, which presumably will be passed on or the council will take the hit or rates will be increased to cover the charges?

Mr McKenzie—I do not know. There is some logic in what you are saying.

CHAIR—A large swimming complex is about to be built for Kalgoorlie, isn't it?

Mr McKenzie—It is about to be opened. It has been built. It was due to open, I think, on 9 March, but they are probably a couple of weeks behind schedule at the moment.

CHAIR—Who has paid for it?

Mr McKenzie—I think the state government chipped in a fair bit. I think a fair bit of it has been borrowed. It is a project I kept well and truly away from. I am not involved in the town council.

CHAIR—You are not associated with the development of the new pool complex?

Mr McKenzie—No.

CHAIR—Do you know whether the entry fees will be higher or at the same level as the current pool?

Mr McKenzie—Higher.

CHAIR—By how much, do you know?

Mr McKenzie—About \$1.

CHAIR—We are looking at a higher rate being taxed at 10 per cent?

Mr McKenzie—I would imagine so. It currently costs about \$2.50 to get in; it is going to cost about \$3.50. Compare that to two years ago when it was all provided free. That is the sting from our point of view.

CHAIR—This has not been quantified, but my understanding is that the population in Kalgoorlie-Boulder is increasing reasonably rapidly. This is a growth centre. One would expect there would be greater demand for these facilities and greater demand for club membership. How is your membership going? Is that following or tracking population growth?

Mr McKenzie—It is dropping because we cannot contain our costs. As I said earlier, our kids used to go into the pool to train for free. The council said they could no longer afford to do that, so the kids had to buy a ticket every time they went in. That meant the cost of training just got beyond a lot of families. We dropped about 40 per cent in numbers and we have not recovered them.

CHAIR—It is actually a price sensitive thing as to whether you can attract the kids into the club or not?

Mr McKenzie—Yes.

Senator MURRAY—Just to follow on, you said that parents are required to pay on average \$175 per season.

Mr McKenzie—Yes.

Senator MURRAY—It is not unreasonable for there to be three kids in a family, so you are up near—what is that?

Mr McKenzie—\$500-odd.

Senator MURRAY—On your way towards \$600—\$550-\$600—which is near average weekly earnings, isn't it?

Mr McKenzie—In addition to that, you have to buy them a pair of goggles, a pair of bathers, a tracksuit and a towel. That is the problem we get pushed down our throats as a committee.

Senator MURRAY—Two years ago it was \$150?

Mr McKenzie—Two years ago it was \$50.

Senator MURRAY—Per kid.

Mr McKenzie—\$50 per kid, yes. It was \$150 for three.

Senator MURRAY—Good old economic rationalism again.

Mr McKenzie—The council said user pays—everyone has to pay to go into the pool.

Senator MURRAY—The government said to the council 'User pays'.

CHAIR—I must say I am not as well informed as I ought to be on this subject, but my understanding is that the state government, in allowing the Education Department to promote the annual learn to swim campaign, has now switched that to private providers away from the Education Department. Is that correct?

Mr McKenzie—It is a proposed move. I do not know that it is set in concrete yet.

CHAIR—It may not have been undertaken. My line of questioning is obvious. I was going to ask: does that mean that in more remote areas the cost of private providers would be greater than the cost of the government provided facility, given the ability to cross-subsidise at the government level? If this is just a gleam in their eye or a bit more than that, it is not a question I can actually follow with you, I do not think.

Mr McKenzie—There is another aspect to that, and that is this: if private providers are asked to provide across the board—that is, if some organisations said, 'We will provide it across the state'—my guess is that they will only provide it where they can make a quid. In other words, in a small town like Coolgardie where maybe they do or maybe they do not currently have Education Department run classes, those classes just simply will not exist and the kids will then either have to come in here or to another major centre. That is probably not a real problem in the eastern goldfields, but I imagine it would be in the wheat belt. You would probably get classes at Northam and Merredin, but you would not get them at Goomalling and Dowerin and all those little towns that have small pools. That just simply means that fewer kids learn to swim, which probably means that 10 years down the track more people drown.

CHAIR—Thank you very much, Mr McKenzie. I now declare this hearing of the Senate inquiry closed, ending the Kalgoorlie chapter.

Committee adjourned at 3.53 p.m.