



National Secretariat

Mr Kai Swoboda
Secretary
Tax Amendment Bill Inquiry
Joint Standing Committee on Electoral Matters
Parliament House
Canberra ACT 2600

Dear Mr Swoboda

Thank you for the opportunity to contribute to the JSCEM inquiry into Schedule 1 of the Tax Laws Amendment (2008 Measures No. 1) Bill 2008.

The following comments are provided by the ALP to inform the work of the Committee.

Yours sincerely

Tim Gartrell
National Secretary

Australian Labor Party (National Secretariat): Submission on *Schedule 1 of the Tax Laws Amendment (2008 Measures No. 1) Bill 2008*.

1. Introduction

The Australian Labor Party (ALP) welcomes the introduction of the *Tax Laws Amendment (2008 Measures No. 1) Bill 2008* into the federal parliament, and its passage through the House of Representatives.

The ALP notes that this Bill implements Labor's election commitment to improve the transparency, accountability and integrity to the Australian electoral system.

The amendment addresses the problems caused by the large increase in the deductibility threshold introduced by the Howard Government, which raised deductibility from \$100 to \$1500.

The Coalition Government changes also allowed corporations and other large entities to deduct the full amount whereas the previous laws were confined to individual, real-person, donors.

The ALP took a strong stand against these changes in Opposition, and the Bill being considered by the Committee gives form to Labor's policy in this area.

The amendment Bill gives form to the commitments contained in the ALP National Platform, namely:

Clause 49: Labor will abolish the tax-deductibility of political donations, and reverse the Howard Government's attempt to hide donations by lifting the disclosure threshold from \$1,500 to \$10,000.¹

The Bill's intention was also supported by the then Shadow Special Minister of State, Alan Griffin MP who described the tax deductibility of political donations as:

"A massive windfall to coalition donors."²

The ALP believes that the public policy grounds for the Bill are clear.

2. Arguments against tax-deductibility

The ALP believes there are good public policy grounds for removing the tax-deductibility of political donations.

The Democratic Audit of Australia made the argument in its 2006 paper effectively:

"Tax relief can play a role in encouraging political participation through contributions. However, it can also have regressive effects and hence, undermine political equality. The present system of tax relief, for instance, favours the wealthy because, having more disposable income, they are more able to take advantage of the subsidy. Further, for the same amount

¹ Chapter 11: Reforming Government, ALP National Platform and Constitution, As adopted by the 44th National Conference, 2007, Sydney. www.alp.org.au.

² "Government Rams Electoral Changes through Senate", 20 June 2006. <http://www.alp.org.au/media/0606/mssms210.php>.

of political donation, the wealthy, being subjected to higher income tax rates, receive a greater amount of public subsidy.”³

While there are some arguable benefits in increased civic participation in the political process which are foregone in abolishing deductibility, there exist many more avenues for that participation to occur, without facing the risk of distortion in the Australian electoral system.

Additionally, the ALP believes that donations from individuals to political parties should be genuinely philanthropic and an additional inducement from the taxpayer is unnecessary and not justifiable. The ALP does not believe that tax-payers should subsidise individual donations in this way.

The ALP notes that removing tax deductibility for contributions to political parties will save an estimated \$31.4 million over the forward estimates.

The ALP believes that removing tax deductibility remains the best policy option for promoting integrity in the political system.

By removing the deductibility provisions, rather than restoring them to their pre-2006 levels, the federal government is bringing the tax law relating to political parties into line with amendments already foreshadowed by the Special Minister of State on donation disclosure. These tax laws will further improve the integrity of the electoral system and will work in conjunction with the lowering of the disclosure threshold.

The ALP also believes that this reform could have a beneficial impact on the not-for-profit and charitable sectors.

These areas attract tax-deductibility status and may be a more attractive option for philanthropic donors as a result of these reforms.

3. Balance in the Bill

The ALP notes that the Bill provides a balanced and targeted response to the problem with deductibility outlined above.

MP and Senator contributions will still be deductible under the general tax deduction provision, which allows a tax deduction for an expense that arises in earning income that is assessed for tax.

4. Concluding comments

The ALP supports the stated intention of the Bill to remove tax deductibility for individual and institutional donors to political parties.

The ALP believes that this measure will improve the integrity of the electoral system and is delivering on Labor’s commitments made in opposition.

³ Young S and Tham J; *Political Finance in Australia: A Skewed System, Democratic Audit of Australia*, ANU, 2006, Canberra.