



16 April 2008

Mr Kai Swoboda
Inquiry Secretary
Joint Standing Committee on Electoral Matters
Parliament House
CANBERRA ACT 2600

Dear Mr Swoboda

**Inquiry into Tax Laws Amendment (2008 Measures No. 1) Bill 2008
Tax Deductibility of Political Contributions and Gifts**

Thank you for your letter of 28 March 2008 advising of the Joint Standing Committee on Electoral Matters (the Committee's) inquiry into the tax deductibility of political gifts and contributions.

This submission is made on behalf of The Nationals Federal Secretariat, The Nationals – Queensland, The Nationals – New South Wales, The Nationals – Victoria, The Nationals – South Australia and The Nationals – Western Australia.

At the outset, The Nationals oppose in principle the piecemeal progression of individual changes to the current rules for campaign finance ahead of, or independently from, a comprehensive and coordinated examination of campaign finance generally. The concern regarding the lack of such a comprehensive and coordinated examination is compounded by the separate inquiry currently being undertaken by the New South Wales Legislative Council's Select Committee on Electoral and Political Party Funding. It is the view of this Party that any changes should be considered collectively and if changes are agreed, these should be progressed on a genuinely bipartisan basis and adopted collectively and uniformly across all jurisdictions. Such a process would provide genuine transparency and uniformity of regulation, as well as going a considerable way toward rebuilding any damage to public confidence such as that which has occurred with the recent revelations embroiling the Labor Party in New South Wales.

For that reason, The Nationals believe the changes proposed regarding tax deductibility of political gifts and contributions should be held over and considered as part of the Electoral Reform Green Paper process, which it is understood will be initiated with the release of the Green Paper in July 2008.

The current process adopted by the Rudd Government, whereby individual changes such as that being examined by this inquiry are being progressed independently of a holistic examination, serves only to create cynicism about the Labor Party's real objectives and cast serious doubt over the sincerity of the Government's public statements regarding campaign finance reform. On the evidence so far, it appears the Government is more interested in disadvantaging its political competitors relative to its own standing.

While The Nationals is willing to consider genuine campaign finance reform that is fair and equitable to all parties through the Electoral Reform Green Paper process, it cannot support the change being examined by this particular inquiry at this time on the basis of the concerns expressed above.

On that basis The Nationals maintains its support for the current arrangements whereby individual taxpayers are provided a tax deduction for political party membership fees and both individual and corporate taxpayers are provided a tax deduction for contributions or gifts made to:

- Political parties
- Members of Parliament
- Candidates for political office.

In its February 2006 report, the Committee delineated the current funding and disclosure scheme's fundamental objectives, the first two of which included:

- Funding should be provided to parties and candidates as a subsidy to their costs of contesting a particular federal election campaign, and not a means by which to fund on-going administrative costs or to provide a financial base from which to fight future elections;
- A level playing field should operate between political parties and independent candidates.

In the view of The Nationals, the current arrangements for tax deductibility serve to achieve both those objectives, as well as encouraging greater participation in the democratic process.

Subsidising the cost of election campaigns

Public funding provided to parties and candidates is not anywhere near sufficient to cover the escalating costs of modern political campaigning. The current rate of 214.018 cents per eligible vote barely covers the cost of two letters to a voter. In an era where media syndication and changing media consumption trends means it is increasingly difficult for local Members to rely on the media to communicate with voters, communication directly with voters through other mediums such as mail and advertising has become more important to ensure public engagement in the democratic process.

For that reason, no reasonable suggestion can be made that public funding serves to subsidise a party's on-going administrative costs or provide a base for fighting future elections. In fact, political party membership fees and particularly political donations have played an ongoing and increasing role in financing party administration and election campaigns under the campaign finance arrangements that have existed to date.

Therefore, removal of tax deductibility for political party membership fees and political donations in the absence of an alternative compensatory mechanism will have the dual impact of:

- (a) discouraging participation in the democratic process; and
- (b) in the case of political donations, discouraging an important source of campaign finance.

Levelling the playing field

The current tax deductibility arrangements of party membership apply equally to all parties and candidates, whether independent or party-affiliated, providing no advantage to any party or individual over another. Undertaken in isolation as is proposed, the removal of the tax deductibility provision will have the effect of tilting the so-called "playing field" more heavily in favour of the Labor Party at the expense of all other parties and independents. This is based on the fact that the playing field is already tilted in the Labor Party's favour by virtue of the income tax exemption currently provided to trade unions (refer ITAA 1997 section 50-15). Thus, union donations to the Labor Party and associated entities and the union's own direct expenditure on political campaigns is tax-free.

Further, individuals taking out union membership are currently provided a tax deduction for that expenditure. Removing the tax deductibility for membership of a political party but not for a trade union is inequitable and contrary to an individual's right to freedom of association, a principle The Nationals firmly subscribe to. The extension of the Government's argument in favour of this change is that Australians may associate with organisations with which it enjoys a close relationship on a tax-deductible basis, ie. the trade unions, but may not associate with its competitors on the same footing.

The net effect of the exemptions provided to the union movement for income tax and membership fees is that a major source of the Labor Party's funding is pre-tax for the contributor.

The Nationals reject outright that the provision of tax deductibility for political donations and membership of a political party, industry organisation or union is a "taxpayer subsidy" as argued by Labor in terms of political parties. However, if Labor's assertion is accepted, then the current exemptions for the union movement must also be interpreted as a taxpayer-subsidised donation base for the Labor Party.

For these reasons outlined above, the current provision for tax deductibility for donations and political party membership goes some way towards leveling the playing field for all political parties and candidates.

Engagement in the democratic process

The Nationals continue to subscribe to the view that the provision of a reasonable tax deductibility threshold for political donations and membership fees, such as the existing \$1,500 level, encourages participation in the democratic process.

The current threshold is undoubtedly modest. It cannot be reasonably argued, nor has it been demonstrated, that the threshold engenders any level of political influence on political parties or skews any political influence to the wealthy in society. Nor can it be demonstrated that the threshold has any appreciable impact on the decision of corporate donors to make political donations. Rather, the removal of the threshold will have relatively more impact on the decision of smaller individual donors as to whether or not to contribute to the democratic process.

Thank you for the opportunity to provide a submission to the Committee's inquiry.

Yours sincerely

A handwritten signature in black ink, appearing to read "Brad Henderson". The signature is written in a cursive, flowing style.

Brad Henderson
Federal Director