

Submission to the Joint Standing Committee on Electoral Matters
Inquiry into Schedule 1 of the Tax Laws Amendment (2008
Measures No. 1) Bill 2008

By Dr Norman Thompson

The electoral funding and disclosure system in Australia is in crisis. As political parties raise vast sums of money from corporate donors and other organisations such as unions and lobby groups, citizens in our country are increasingly concerned about these contributions buying access for the donors to our politicians. There is the perception in our society that this access influences decisions our government make which then affects us in our daily lives.

Urgent changes to the electoral funding system need to be made in order to restore the public's faith in our democratic system. Certain reforms flagged by Senator Faulkner will be a positive first step in this process: Changing the public funding system to a reimbursement for expenditure scheme, increased transparency of donations to the political parties and banning donations from foreign sources.

Changing the tax laws to disallow tax benefits to businesses for political donations is positive. However, the proposal to disallow tax relief to individuals for political donations is a backwards step.

In my next submission to this committee I will argue for sweeping reform to electoral funding laws. One recommendation I will make is to allow political donations from individuals while banning them from corporations and other organisations. The amount of money a person can donate would be capped at a low amount, such as \$1,000 a year.

I believe this recommendation will have a very positive impact on our democracy which I will elaborate further in my future submission.

One effect of this proposed reform will be to increase the amount of public money needed to electoral funding of candidates and parties. The amount of public money needed will be less if we can encourage many individuals to make political donations.

More importantly we need to encourage more people to become involved in the political process in order to have a healthy democracy. While the evidence is difficult to uncover, it appears from various reports that membership in our major political parties is falling. Certainly we read more and more about people becoming disengaged from politics.

Rather than allow a tax deduction on political donations I believe we should give tax credits for these contributions. This means that those in a higher tax bracket are not rewarded more than those in the lower brackets. Tax credits are more equitable than tax deductions.

A tax credit is generally more valuable than a tax deduction of the same magnitude because a tax credit reduces tax directly, while a deduction only reduces taxable income. A tax credit reduces the tax paid dollar-for-dollar. This amount of tax savings is not dependent on the rate the taxpayer pays.

Canada has successfully introduced such a tax system. Their income tax credits for monetary contributions are available as follows: 75 percent of the first \$400, 50 percent of the next \$350 and 33⅓ percent of an amount over \$750. Their justification for this is that it encourages greater participation in the political process.

Boatwright, Green and Malbain (2006) conducted a study in Ohio to see if publicising a tax credit for political contributions increased its use. Ohio provides full tax credits of up to \$50 to citizens who make contributions to state candidates.

They found that publicising the fact people can receive tax credits for their donations did increase the use of the system. While further studies would need to be carried out, we can hypothesize that people feel more engaged in the political process by contributing to candidates who represent their beliefs and values.

The tax credit amount allowed is one that needs consideration by the committee and tax experts. Certainly it varies in other jurisdictions.

However, it is an important step for encouraging individual to become more engaged in politics in our country. Totally removing any tax relief for political contributions from individuals is a short sighted saving in Australia's upcoming budgets.

In fact giving such tax credits to individuals could end up saving money in the long run. If meaningful reforms such as banning corporate donations are made to the electoral funding system in the future that would mean more money is required from other sources. Certainly there will be the need for greater public funding of election campaigns. But encouraging individuals to voluntarily contributing will reduce the amount of public funding required.

Thank you for your time and consideration of this submission.

Reference

Boatwright, R G, Green, D P & Malbin, M J, Does Publicizing a Tax Credit for Political Contributions Increase Its Use? American Politics Research, Vol. 34, No. 5, 563-582 (2006)