



# Federated Municipal and Shire Council Employees' Union of Australia New South Wales Division

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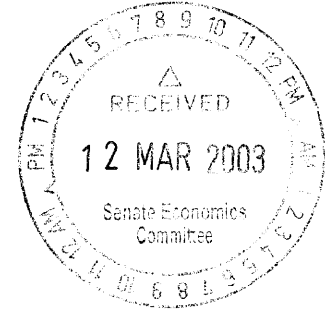
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21 February 2003

The Secretary  
Economics References Committee  
Department of the Senate  
Suite SG.64  
Parliament House  
Canberra ACT 2600



Dear Sir or Madam,

**Re: INQUIRY INTO THE STRUCTURE AND  
DISTRIBUTIVE EFFECTS OF THE AUSTRALIAN  
TAXATION SYSTEM**

Please find enclosed the Municipal Employees Union's submission to the inquiry into the structure and distributive effects of the Australian taxation system. You will note that the report highlights the following:

- The need for targeted tax relief directed toward low paid workers and low income families.
- Roll back the GST on basic household expenses.
- Close loopholes that allow wealthy corporate executives to avoid paying their fair share of tax.
- Roll back subsidies to private health insurance and use taxpayer's money to boost investment in Medicare and public health.

Should you have any questions about the submission, please contact our Research Officer, Lyn Fraser on 02 92658211.

Yours faithfully,

Brian Harris  
General Secretary

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Submission from

**Federated Municipal and Shire Council Employees Union  
of Australia, NSW Division**

To

The Senate Economics References Committee

**The Structure and Distributive Effects of the  
Australian Taxation System**

February 2003

The MEU represents local government employees throughout NSW and our members include outdoor workers such as lifeguards, garbage workers, maintenance and road construction workers and garden maintenance workers and indoor workers such as engineers, planners, building inspectors, librarians, child care workers, clerical staff - the list goes on. MEU members keep local government working!

The MEU is also a principal electricity union and covers a range of workers in the power industry.

The strength of the MEU lies with our localised structure of Delegates within the metropolitan area and we have offices placed throughout regional NSW staffed by skilled Officials to ensure our members are served by representatives who know the issues that matter.

## Context

This submission has been prepared in response to a request from a member which was endorsed by the Murray Branch of the Union on the 28<sup>th</sup> November 2002. The request related to the need for income tax cuts to compensate for the Goods and Services Tax which was introduced on 1 July 2000.

## GST - a regressive tax

A Goods and Services Tax (GST) is a regressive form of taxation applying a flat tax rate on consumers irrespective of their capacity to pay. Without adequate compensation, it can have a particularly detrimental impact on low wages and people on fixed incomes (such as social security beneficiaries).

## Some exemptions were introduced

Prior to and immediately following the introduction of the GST campaigns were mounted from a wide range of groups to sway the government to reduce or exclude GST from particular items or to provide compensation.<sup>1</sup> While the government excluded areas such as basic food, child care, health care, water and council rates from the GST, there remained considerable contention about the introduction of the GST on many other remaining items (for example electricity, telephone, pre-made foods and take-away meals etc.).

## Some corporations have exploited the confusion

While introducing the GST, the Federal Coalition Government also eliminated some hidden taxes (such as the WST) and changes were made to fuel excise. However, it also became evident that some companies used unscrupulous means to deliberately capitalise on the confusion relating to the changes, in order to maximise profits. Some did this by failing to pass on to consumers cost savings from the elimination of the Wholesale Sales Tax (WST) or reductions in excise.

In October 2000 the Australian Catholic Social Welfare Commission Secretariat had noted at that time, the reluctance of oil companies to pass on reductions in excise rate to consumers. They stated:

The Federal Government had committed to lowering excise on diesel fuel to match the impact of the Goods and Services Tax (GST), but in June demanded that the oil companies start from July 1 to pass on the expected long-term savings from tax reform of 1.5c a litre. The oil companies insisted

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<sup>1</sup> For example see P. Hudson, "Beer protest riles Costello," *The Age* – 26 May 2000. See also information on protests regarding the imposition of the GST on sanitary products – M. Kronemann "Taxing Australia's Women", Australian Education Union, posted 7 July 2000, viewed 20/2/03 <<http://www.aeufederal.org.au/Women/Taxingaustwom.html/>>

on their inability to do so and this caused a gap to emerge between the reduced excise rate of 37.5c a litre and the on-farm diesel fuel rebate of 35.7c a litre.<sup>2</sup>

It should also be noted that in some cases the ACCC has been called upon to investigate questionable price increases, promotional strategies and price fixing behaviour of a number of companies following the introduction of the GST.<sup>3</sup>

#### Limited income tax cuts received

Workers did receive income tax cuts with the introduction of the GST (some estimates suggest cuts amounted to \$12 billion). However, low paid workers, and especially part-timers, received the smallest tax cuts providing inadequate compensation for the additional price increases. The fairness and adequacy of the level of income tax cuts remain a point of contention.<sup>4</sup>

#### Impact on consumers vary

In practice the GST has had varying impacts on different workers – in part reflecting the way the GST is implemented and the different consumption patterns of workers.

For example, while the cost of some items increased as a result of the new tax system, others were reduced as a result of the removal of Wholesale Sales Taxes (WST). Some price variations also depended on whether products were consumed on premises or packaged as Take Away.

However, it is sometimes difficult to determine the actual impact of the GST on prices of some goods. For example, fuel prices are affected by such things as changes to the international price of fuel, movements in the Australian/US dollar exchange rates, and local price cycles – in effect fuel prices are in a constant state of flux, sometimes changing several times in one day.<sup>5</sup> Adding to concerns about the cost of oil, media reports on 20 February 2003, indicate that “war jitters” was responsible for pushing the international price of oil to and that consumers should “brace for further rises.”<sup>6</sup>

<sup>2</sup> Australian Catholic Social Welfare Commission Secretariat, “A Litany of Disadvantage: Rural Communities of Australia”, Discussion Paper No. 15, (ACSW), viewed 20/2/03, <[www.catholicwelfare.com.au/publications/Discussion\\_Papers.htm](http://www.catholicwelfare.com.au/publications/Discussion_Papers.htm)>

<sup>3</sup> For example, refer ACCC, “ACCC success with Perth car dealer’s GST claim,” *GST Bulletin*, No. 22, February 2001.

See also “Qld Gvt asks ACCC to investigate petrol prices,” 12<sup>th</sup> January 2003, ABC News Online posted 13:55:53 viewed 18/2/03 <<http://abc.net.au/news/newsitems/s761710.htm/>>

<sup>4</sup> Note for example ACTU, “Unions and a Fair Society”, 06 June 2001, ACTU:Newsroom, posted 6 June 2001, viewed 19/2/03, <[http://www.actu.asn.au/public/news/1022724454\\_15975.html](http://www.actu.asn.au/public/news/1022724454_15975.html)>

<sup>5</sup> It is noted that the 2000-2001 Federal Budget contained a \$1.8 billion rural package over four years but prices remained high in several areas.

<sup>6</sup> M. Wade “Soaring petrol prices fuel growth fears”, *Sydney Morning Herald*, 20 February 2003, p 6.

A number of studies have suggested that the impact of the GST on such items as groceries has not been as dramatic as initially anticipated by consumers. However, it is in the provision of services that cost increases appear to be evident – causing significant strain on household budgets, particularly those of low income families.

#### More reductions to income tax sought

The Australian taxation system had evolved to be heavily reliant on income taxes as a major source of government taxes. It had become clear to many that there was a need to broaden the tax base and to rationalise the hidden taxes applying to a narrow range of goods. It is therefore not unexpected that, with the introduction of the GST, some workers anticipated larger tax cuts than those received.

Some of our members have expressed concern that they have experienced an increase in the cost of living since the introduction of the GST and look to the government for further reductions in income taxes.

#### Broad Context

While the Australian community has experienced changes in the taxation system there have also been dramatic changes elsewhere in public policy and foreign affairs which undermine the long term ability of ordinary Australians to maintain an adequate quality of life for themselves and their families. A couple of disturbing factors have included the following:

- Increased diversion of public funding away from public health and education into private health and education, along with massive allocations of government revenue going into the private insurance industry.
- The ongoing ‘slash and burn’ of the public sector and the privatisation of a range of facilities and services providing one off sources of revenue but undermining the long term social and economic viability of communities.
- Emerging evidence of inadequate regulation of sectors of the economy undermining community confidence in industry and government.

In this context it is not surprising that increasing public sentiment calls for a readjustment of our expenditure priorities – phasing out the propping up of private health insurance, questioning preparations for war with Iraq (the largest importer of Australian wheat)<sup>7</sup> and the possible introduction of a “war tax”. By contrast,

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<sup>7</sup> In 2002, wheat exports to Iraq were worth approximately \$900 million. See BBC News World Edition, reporting that Iraq cut imports of Australian wheat in response to threats of war, posted 17 February 2003, 12:21 GMT, “Iraq offers Australia wheat for peace,” BBC News, viewed 19/2/03, <<http://www.news.bbc.co.uk/2/hi/business/2771221.stm>>.

increasing public sentiment appears to require a refocussing of priorities on expenditure on public health, public education, employment opportunities and regional security issues.

#### More equitable changes needed

It is clear that a focus on the impact of the GST, to the exclusion of other factors can create a distorted view of emerging community needs and distributional issues. A number of factors should be considered in tandem to help create a more equitable system of gathering revenue and determining priorities for government expenditure.

With these points in mind the MEU recommends the following:

- The government should finish the business of tax restructure by creating a fairer tax system – work to close loopholes that enable wealthy corporate cowboys to avoid paying their fair share of tax (for example through transfer pricing and family trusts).
  - Introduce further cuts to income taxes so as to reduce inequality. We therefore propose that targeted tax relief be directed toward low paid workers and low income families.
  - Boost funding to public education, Medicare, public health and develop more training and employment opportunities.
  - Roll- back the GST on basic household expenditures such as electricity, telephones and gas.
  - Roll-back the subsidy to private health funds.
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## References

Australian Broadcasting Commission, "Qld Gvt asks ACCC to investigate petrol prices," 12<sup>th</sup> January 2003, ABC News Online posted 13:55:53 viewed 18/2/03 <<http://abc.net.au/news/newsitems/s761710.htm/>>

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BBC News World Edition, posted 17 February 2003, 12:21 GMT, "Iraq offers Australia wheat for peace," BBC News, viewed 19/2/03, <<http://www.news.bbc.co.uk/2/hi/business/2771221.stm/>>.

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Wade M., "Soaring petrol prices fuel growth fears", *Sydney Morning Herald*, 20 February 2003, p 6.