

**MATTERS OF PUBLIC IMPORTANCE - GOODS AND SERVICES TAX**

Address by Gareth Evans, MP, Deputy Leader of the Opposition, to the House of Representatives, Canberra, 7 April 1998.

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Mr GARETH EVANS (Holt-Deputy Leader of the Opposition)(4.08 p.m.)-Where is it? Where is this tax reform package, this all-singing, all-dancing, bells and whistles tax package that we were promised by the Prime Minister (Mr Howard) and the Treasurer (Mr Costello) now nearly a full year ago? For nearly a year now we have had 80 or more officers of the Treasury and the tax office slaving, we are told, more or less full time on this. The midnight oil has been burning, the [2651] options papers have been generated and the rhetoric has moved into absolute overdrive so far as the political side of the coin is concerned.

But where is the product? And where is the Treasurer? Will he come in and defend his product on this occasion? It is a secret. Even a public canvassing of the quantified options that might be being considered might be a small contribution to an informed public debate on this issue. Where is the description of possible trade-offs between different complex policy options in this particular area? Where is the explanation, such as it might be usefully given to the public, of the impact of the particular kinds of options in this tax debate? Where is the promised paper on family trusts and the tax treatment of that, which was a deliberate and specific proposal-

Mr Martin Ferguson - It is in Parer's office.

Mr GARETH EVANS - It is in Parer's office, like the rest of the government's whole performance on this-hiding, cringing, not wanting these issues to come out and be exposed to the light of day.

In the course of all this, parliament and the community are being treated with absolute contempt. What the government is obviously proposing to do is to save up till the last possible minute whatever it is that is in its tax package, assuming it can resolve all the innumerable conflicts of interest that are now crowding in upon it as it tries to come up with the final package. Obviously it is the government's intention to launch the package-whatever it is, whenever it is ready, whenever the government is ready to bring it into the public domain-with the maximum hoopla. Obviously the intention is to dazzle us with the baubles, to dazzle us with the bribes. Obviously the intention is to emphasise the winners that will be no doubt set out and provided for somewhere in the package and to ignore the losers. Above all, in particular, unquestionably what will happen is that the government in its presentation will ignore those who will be losers from the introduction of the GST component of its package. It is a GST which John Howard said

back in May 1995 would never be introduced; a GST which Peter Costello, in the term of the current government, in November 1996, said was snake oil.

There are a great many reasons why we say a GST is neither necessary nor desirable, why it is not a benefit but a burden for this community, why it is not an asset for the Australian economy but a liability. Some of those reasons include the massive new hassles and impositions that a GST will represent for small business, with the tax collection agencies out in the community moving from the present figure of 75,000 to over one million new collection points. The tax office itself tells us that the compliance costs that are involved for the average business in WST administration with the responsibility for that administration are much less in fact than will be involved in the case of small business-

Mr Cadman - Rubbish, Gareth; read their report.

Mr GARETH EVANS-No, that is not what they say. You look at the costs involved. I have, and that is what they are saying. What is also obviously the case about the GST-and we will say this on many more occasions that I have got time to develop here-is that it does not address real problems in the tax system, the real problems in the tax system being concentrated, as they overwhelmingly are, in the income tax area, where there is a problem of bracket creep for average wage earners, as has always been the case; where there is a problem of high effective marginal rates for low income families; where there is the problem of the erosion of the PAYE system, particularly in favour of people describing themselves as independent contractors or subcontractors; and where, above all else, there is a very real problem of avoidance of the paying of their fair share of taxation by a great many high income, high wealth individuals in this community-starting, of course, with the people like Senator Parer and the other 18 members on the government front bench who possess family trusts; the 19 out of the 37 coalition senators who owned up to possessing family trusts when they had to declare their interests in the Senate the other day and God knows how many other [2652] members of the House of Representatives back bench, all of whom demonstrate reasons why it is that we are hearing so little from the government on this particular aspect of the equation.

Obviously a GST does not help with such economic problems as the country has at the moment. It does nothing to support an increase in savings in the community, as has become particularly evident, I guess, in recent times in New Zealand where the current account deficit has absolutely blown out, notwithstanding that the GST in existence in New Zealand is of a kind that has generated a great deal of passionate ideological support from the government here. If the New Zealand experience is any guide to what a GST contributes to that part of the economic equation then it is no case at all for the government. The GST does nothing to keep inflation in check. On the contrary, if it generates some kind of wage push to respond to it, the contrary effect will occur. A GST does nothing whatever to stimulate employment. There is no correlation between those countries where there is a GST and their employment experience. In Europe you have got a GST and high unemployment; in the United States, the most successful economy in the world, there is no GST and in fact comparatively very low unemployment. There is also no correlation anywhere else in the world between the existence or otherwise of the GST and the scale of the black economy problem which exists. This is the familiar litany of problems that are associated with the GST.

But overwhelmingly the biggest problem, and the problem on which we concentrate today, is that

of unfairness-the inherent inequity, the inherent unfairness, of a GST so far, for a start, as retirees are concerned, who have paid income tax all their working lives and who now, when they are living on fixed income, spending and drawing down their capital, are taxed on that too. But above all there is unfairness for low and middle income Australians generally; unfairness because there is just an inherent unfairness, an inherent regressivity, about a tax system which places an emphasis on taxing people equal amounts

for goods and services they buy whatever their income. Lower income people, particularly the sort of people that the minister at the table, the Minister for Family Services (Mr Warwick Smith), is supposedly responsible for-I wonder how strong a voice he has been in the cabinet arguing on this-necessarily spend a much higher percentage of their income than is the case with rich people. There is unfairness for lower and middle income earners because it is almost impossible to define and to implement a compensation system that will work equally well for all categories of low income earners. There is unfairness because, if you do come up with some kind of compensation system which might look halfway fair at the time of its introduction, you can absolutely not guarantee that it will remain so in the future.

There is bound to be an erosion as there was in New Zealand with the sneaking up of the tax rate from 10 to 12 1/2 per cent and as there was in the UK with the sneaking of that rate up to 17 1/2 per cent. And as rates go up equity goes down. Who in Australia could trust a Peter Costello or a John Howard to develop and implement a fair tax system in the first place? Who in Australia could possibly trust a Peter Costello or a John Howard to maintain a GST at 10 per cent or whatever rate it is first introduced? That is their record-a fistful of dollars today and an iron fist tomorrow-and that is what people have to expect if they are going to contemplate the introduction of a GST. When we have a GST introduced at, say, 10 per cent and as it sneaks its way successively up to 17 1/2 per cent or as we have a compensation package which is steadily eroded with the passage of time, we will be told, 'Sorry, to keep the GST at the level at which it was introduced was just a non-core promise.'

The evidence is overwhelming that the only people who will benefit from a GST are high income earners. One of the best descriptions and demonstrations of that is in the winter 1997 Australia Consumers Association's publication Consuming interest, where the modelling was done and where the arguments emerge as absolutely compelling. A whole series of scenarios are mapped and tabulated [2653] involving a GST at different rates, involving a GST with or without a big list of exemptions and involving a GST with or without big accompanying income tax cuts. This analysis shows that the only winners, as distinct from losers, on any of these scenarios are high income couples-high income couples in the top 20 per cent of the income scale in Australia. The losers-and maybe the Minister for Family Services (Mr Warwick Smith) at the table will listen to this-are couples in households of 65 or over and those in households whose principal source of income is government pensions and allowances. Losers are couples in the low income bracket-in the lowest 20 per cent-in households with dependent children. Couples who are on an average income with dependent children are also losers. One parent low income households-in the lowest 20 per cent-and one parent average income households with dependent children are also losers. When you map the changes-and you have the Australian Consumers Association mapping those changes with great specificity and great rigour-every single one of them demonstrates that the only losers in the entire system are those on low and middle incomes. The only winners from a

GST are those on high incomes. I seek leave to table the extract of that particular report.

Leave granted.

Mr GARETH EVANS - The story that I particularly wanted to emphasise today was that about the extent to which the absence of exemptions in the context of a GST make even bigger losers of those who would otherwise be losers anyway from the system. If you do not exempt or zero rate whole particular categories of goods and services, you make the negative impact of all of this even worse. There is no doubt that the Treasurer and the government are approaching this whole exercise of a GST with a passionate concern, if they possibly can, and to introduce a GST with the minimum possible number of exemptions. To do so maximises the financial return they can generate, maximises the amount of money they will have left over to put into direct tax cuts- baubles and bribes- and, of course, in the process, maximises the regressivity that is associated with that.

There are particular areas that absolutely cry out for exemptions to be granted. One such area is of course food. If you do not exempt food, you create a situation where a huge number of Australians-in particular, the 21/2 million Australians who are in receipt of government pensions and benefits-will be the major sufferers. Welfare groups have told us that low income earners spend up to 40 per cent of their income on food while high income earners spend just 11 per cent. This means that, inevitably, if you do not exempt food-and it has not been ruled out by the Treasurer-in that way, you are creating an even more inequitable situation than would otherwise be the case. Similarly with rent, low income earners-we are told by the Real Estate Institute of Australia-already spend one-third of their gross income on rent, and a 10 per cent increase in rent prices would force some people to go without other basic necessities like food, clothes and education for their kids.

Today the Treasurer was asked very explicitly whether he would rule out rent from the application of the GST and he absolutely refused to do so. Yesterday the Treasurer was asked whether he would rule out any health expenses-medical and dental bills, private health insurance contributions, home and community care service fees, nursing home fees and anything else in the health service area-from the operation of the GST. Absolutely not. It would be interesting for the minister at the table to get up and tell us how assiduously, how seriously, how effectively and how aggressively he argued with the Treasurer for the exemption and the zero rating of the whole health area. We had a failure to rule out education expenses, whether they are at the school level or at the university level. We have asked the question; we have not been given an answer. The implications of that for ordinary, low and middle income families in terms of the additional burdens they have to contemplate in the future are just immense.

Perhaps most interesting of all-because I do not think this has penetrated the conscious [2654] ness of many people in the community-is that we have had a failure to rule out the possible application of a GST to local council rates and all the community services that are provided by local government that may or may not be within the rate base that may be separately charged for as well. In New Zealand, the payment of rates is GSTable because it is a surrogate for the services that are delivered by local government. It is taxed at 12 1/2 per cent. KPMG has done the

analysis for Australia of what that would mean-translated into the Australian experience-and it comes out at \$200 a year extra for every average household in Australia paying council rates.

That is what is involved in a GST. People have not even begun to contemplate the impact of this. Add up the hundreds of dollars involved in the GST impact on health expenses for the average family, a couple of hundred dollars for the rate expenditure involved and the dollars involved in the education expenses, the rent, the gas, the electricity, the power, the water and the sewerage. All of these things are GSTable. All of them are part and parcel of GST systems as they operate everywhere else. It is not just haircuts and hamburgers. It is not just taking your cat to the vet and your car to the service station.

Mr Martin Ferguson - The footy.

Mr GARETH EVANS-It is not just the footy and the movies, but they are covered too of course. It is things that go to the heart and soul of the family budget of low and middle income earners in this country. Unless and until this government come to the table of this parliament and actually start explaining how some of these things are going to sit within the proposal for tax reform that they are talking about, they will not persuade us nor will they persuade anyone else in the Australian community that they are doing anything else than introducing to this country a monstrously unfair and regressive system. (Time expired)