

TAXATION RESOLUTION ACTU CONGRESS 1997

1 INTRODUCTION

- 1.1 Australia's tax system is neither in crisis nor seriously in disrepair. By comparison with other OECD nations, Australia is a low tax country with a relatively small public sector and comparatively low levels of net public debt. This is the starting point for considering tax reform issues in this country.
- 1.2 Recognising the reality that rogues and freeloaders will always seek to escape their legitimate tax obligations, Congress considers that regular monitoring and periodic review of the tax system will always be appropriate.
- 1.3 Congress notes the statement of the Prime Minister, John Howard, of 13 August 1997 establishing a special task force to consider options on taxation reform. Congress further recognises that the thrust of that task force will be to deliver a Goods and Services Tax (G.S.T.).
- 1.4 Proposals to introduce a GST are not new. In the mid-eighties and again in the early nineties, the union movement has reviewed the evidence and arguments put in support of a GST, and found them wanting.

2 GST

- 2.1 **The key facts about a GST** include the following:
 - 1) **It is intrinsically regressive;** because low-income families spend a much greater proportion of their total income than do high-income families, a GST imposes a higher tax rate on low-income than high income families. Furthermore, Treasurer Costello wants to broaden the indirect tax base and reduce indirect tax rates. Such a change would shift the burden of indirect tax from luxuries and discretionary durables, to everyday necessities, increasing the tax paid by ordinary working families and reducing the tax paid by high-income buyers of luxury goods.
 - 2) **Tax rate in the order of 15% is required** if the GST is to replace existing wholesale sales taxes, payroll tax and fuel excises. A GST at such a rate would not adequately cover compensation payments for social security recipients and other low-income earners hit by higher prices for food and other essentials, nor would it provide any 'surplus' revenue to fund income tax cuts.

- 3) **It would boost inflation but not employment;** there is no serious evidence whatever that a tax shuffle involving greater reliance on indirect taxation will boost Australia's economic growth rate, result in higher national savings, or generate increased exports. However, imposition of a GST will definitely boost inflation; daily living costs facing workers will rise and in the absence of any Accord arrangement wage claims will be adjusted to protect living standards.
- 4) **It would do nothing to stop the 'black' economy** and in fact may stimulate faster growth in illegal economic trades. Recent Canadian studies have found that the introduction of a GST in Canada in 1991 "has been the single most important factor contributing to the growth of Canada's underground economy".
- 2.2 A Goods and Services Tax is an unfair tax; it is regressive and impacts disproportionately on those least able to afford it. Many countries which have introduced a GST have increased the rate within a few years, and/or pared back compensation arrangements in the name of 'fiscal consolidation'. Congress rejects a G.S.T.

3 REVIEW OF SYSTEM

- 3.1 Any review of the tax system must address issues of equity and adequacy. It must be comprehensive and balanced. The tax system must be efficient, as simple as possible, and transparent. In such a review, an assessment must be made of the appropriate levels of physical, social and 'natural' infrastructure that are warranted for our society.
- 3.2 The reason tax revenue is raised by governments is to provide this essential infrastructure, and ordinary working taxpayers must be assured that their taxes are meeting these needs. Australians want access to high quality basic services including:
- Education
 - Health
 - Employment
 - Social Security
 - Public Transport
 - Public Housing
 - Effective transport infrastructure, including road and rail highways
 - Safeguarded natural environment and national heritage
- 3.3 The most serious equity and efficiency problems at this time lie on the income and assets side of the taxation ledger, which has been largely neglected in the recent tax debate. Strengthening the income and assets base could pay for improved

benefits and services, and/or tax cuts for ordinary workers. This is a fairer approach than imposing a GST or expenditure cuts to fund income tax cuts.

3.4 Any review of the tax system should include consideration of the following points :

- 1) A progressive income tax should apply in a consistent way to all income, and not leave PAYE taxpayers shouldering most of the income tax burden.
- 2) A mandatory, minimum corporate tax which stops the rorts and ensures business pays its fair share.
- 3) Targeting the use by major companies, of off-shore tax havens and international transfer pricing arrangements to escape tax in this country.
- 4) A crackdown on family trusts, used by the wealthy to pay less tax than the community in general.
- 5) Stopping the tax evasion now occurring through the Prescribed Payment System.
- 6) Remove the rorts and biases against productive investment inherent in negative gearing with regard to investment in property and shares.
- 7) Review the effects since its introduction of the current dividend imputation system on income distribution and investment incentives.
- 8) Use the tariff system in an innovative manner to raise revenue consistent with our international obligations.
- 9) The income tax laws that allow some individuals to evade taxation through incorporation and income splitting should be reviewed.
- 10) Increase tax rates for high income earners above a new PAYE tax threshold set at around five times average weekly earnings, currently about \$150,000 per annum.
- 11) Introduce a maximum deduction for wage/salary expense incurred by companies in the earning of company income, set at the same level of five times AWE.
- 12) All income in the salary package should be taxable in a consistent way, not merely some of it.
- 13) Introduce nationally consistent inheritance tax on the rich.
- 14) Examine a tax on international financial transactions to and from Australia.

- 15) Adequate resourcing of the Australian Taxation Office to ensure compliance with tax laws and obligations.
 - xvi) The introduction of hypothecated or directed taxes where essential public services require major investment.
- 3.5 Over the past year, the business lobby has conspicuously and noisily been pushing a tax cart of its own, seeking to have a GST introduced. The clear intent of their activity is to shift the tax burden off companies and onto ordinary working people. Congress rejects that objective as unfair and inequitable, and re-affirms the support of Australian Unions for a progressive tax system.
- 3.6 Further, Congress rejects any proposal which results in ordinary workers paying more tax, and believes there is scope for their tax as a proportion of total taxation revenue to be reduced.
- 3.7 However, Congress accepts that the debate about tax reform lacks genuine focus until the specific details of the Howard government's proposals and any coherent alternatives are put on the table for public analysis and review.

4 RECOMMENDATION

- 4.1 Accordingly, Congress recommends that a Sub Committee of the ACTU Executive be convened to monitor the tax reform debate in the context of the above issues and the need to reduce the tax as a proportion of total taxation revenue on ordinary workers. The Committee should prepare a report for a Special Unions Conference to be convened by the ACTU Officers, to finalise ACTU policy and ensure the Union movement is prepared and well informed to participate actively in the emerging debate.