

DEMOCRAT FINDINGS

The Australian Democrats believe that this Inquiry has been a valuable and necessary part of the policy review of the ANTS package.

The Government allowed barely two weeks from discussion of the ANTS package before calling an election. It then allowed just 18 days for the Tax Consultative Committee to take evidence from business and community groups on the technical aspects of the ANTS package and report to the Government. It allowed just 20 hours of debate on the ANTS package in the House of Representatives – an average of about one hour per bill. All of this for what the Government described as the most significant rewrite of the Australian tax system since the 1930s.

The evidence to this Committee shows that there is a deep level of concern about the tax package among industry and community groups and the public at large. The Committee has received over 1400 submissions, with only a small proportion urging that the ANTS package be passed without amendments. A large number of business groups have called for changes, as have a large number of community groups.

In moving to set up this Inquiry last year, the Democrats were seeking to ensure that the ANTS package was properly evaluated, and that the public and affected sectors had the opportunity to comment on it. That we have now achieved.

This Inquiry has operated in an extremely short time frame. When public hearings finished, there were still groups wanting to give verbal evidence to the Committee who have not been able to do so due to time constraints. This point is worth considering in the light of the Government's assertions that the Committee has been a waste of time.

The Main Committee report summarises the evidence and it is not proposed to repeat that exercise in this Chapter. Rather, this chapter seeks to outline the Democrats' main conclusions and recommendations arising out of the report.

The Democrats recommend that the ANTS package not be passed by the Senate unless it is substantially altered to improve its fairness, and to reduce negative effects on the environment and employment.

PART I: GENERAL ECONOMIC EFFECTS

References 2(a), (b), (c), 3(k), (l)

The broad economic effects of the GST were considered in detail in the First Report of the Committee. The key findings by the Democrats on the first stage of the Inquiry were:

- That the indirect tax base is shrinking as a proportion of GDP and that a failure to correct it would result in a loss of revenue worth \$2.8 billion by

2001-02. On that basis, broadening the indirect tax base to include the services sector has merit;

- The direct tax base is in a parlous state, with PAYE taxpayers paying an unfair burden due to the exponential growth of tax sheltered income (eg. concessional treatment of company cars, tax breaks on superannuation, negative gearing of rental losses, dividend imputation credits, trusts and incorporation);
- There is a strong case for relief for PAYE taxpayers due to the effects of bracket creep since 1993, and this should be paid for as much as possible by repairing the income tax base;
- A tax mix switch from direct to indirect taxes would have an adverse economic and social effect, with modelling by Peter Dixon suggesting it could cost up to 16,000 jobs. It also makes the tax system as a whole more regressive;
- The ANTS package is likely to have in the longer term a small but positive impact on the economy, improving consumer welfare by just 0.2 per cent. However, this finding is heavily reliant on assumptions;
- The key risk in terms of ANTS delivering is a failure of workers to accept that they have been fully compensated for the GST price effect, and instead chasing the CPI effect of ANTS through wage increases. Modelling by Monash suggests such a wage response could cost up to 100,000 jobs;
- The fiscal stimulus in the ANTS package will cloak the negative short term transitional effects of the GST, resulting in a job gain of 30,000 in the first year;
- The GST itself is unlikely to have a significant positive effect on employment. Any jobs improvement from the package is likely to come from the elimination of poverty traps and other related measures;
- Zero-rating food would increase the number of jobs created in the short-term by 8-12,000 and would not affect the long term macro-economic benefits of the tax package;
- Food should be GST-free because the equity case is compelling, the economic efficiency case for taxing food is neutral and the simplicity argument is somewhat overstated, and should always be sub-ordinate to the equity and efficiency principles;
- The Government's modelling of the impact of the GST on households clearly understates the impact on low income earners. Treasury's argument for failing to use the Household Expenditure Survey rather than the CPI was unanimously condemned by all expert witnesses, including the ABS;

- Zero-rating clothing would be regressive, providing the greatest benefit to high income households;
- Taxation of housing will need to be carefully considered to minimise negative effects on employment and on vulnerable private sector renters;
- Zero-rating inbound tourism packages would significantly reduce the negative effects of the GST on the most price-sensitive part of the tourism market.

PART II: EFFECT ON HOUSEHOLDS

References 2(d), (e), (f), 3 (u)

The first stage of the Inquiry investigated Treasury's modelling of the impact of the GST on households. It found that there was no expert support for Treasury's approach in the cameos of assuming that all households will be affected in the same way by the GST with a flat, economy wide CPI effect. Seven university professors, Professor Ann Harding¹, Professor John Quiggin², Professor Neil Warren³, Professor Peter Saunders⁴, Professor Peter Macdonald⁵, Professor David Johnson⁶ and Professor John Nevile⁷ were critical of Treasury's modelling approach, which they all argued underestimated the impact on low income earners.

¹ Evidence p.122.

² Evidence p.593.

³ Evidence pp 91-3.

⁴ Submission No. 614, p.5.

⁵ Evidence pp 307-8.

⁶ Evidence pp 114-5.

⁷ Evidence p.1740.

TABLE ONE: ESTIMATED GST PRICE EFFECTS BY HOUSEHOLD AND INCOME (% OF EXPENDITURE) MELBOURNE INSTITUTE⁸

Income Quintile	Couples only	Couples retired	Couple 1 child	Couple 2 child.	Couple 3 child.	Sole parent 1 child	Sole parent 2 child.	Single Person	Single person retired
1	4.07	4.52	5.32	8.00	8.44	4.45	5.10	3.83	2.70
2	2.67	2.44	2.91	3.28	3.75	2.40	3.12	1.96	1.86
3	2.60	2.52	2.57	2.71	3.15	2.49	2.91	2.36	
4	2.21		2.20	2.73	2.86			1.56	
5	1.97		2.04	2.28	2.59			1.17	

Distributional modelling by the Melbourne Institute (Table One) highlights how expenditure patterns change markedly with the type of household and with income level. Low income earners are consistently more adversely effected by the GST than high income earners; part timers, the unemployed, the aged and the self-employed having larger adverse price effects than households with a full time worker. Modelling by ATAX commissioned by ACOSS shows similar results.⁹

⁸ David Johnson "Taxation Reform: Directions and Opportunities" Presentation to Centre of Public Policy conference, 18 February 1999, p.32; Melbourne Institute Tax Reform Report No. 2 1998, p.10. Figures calculated by dividing price effects from the GST divided by household expenditure. The economy wide CPI price effect in this model in 2.44%, including housing and tobacco price effects. Income quintiles are population wide.

⁹ Neil Warren "Modelling of Consumption Tax Scenarios" reported in "ACOSS Agenda for Tax Reform" Background to the ACOSS Proposals" Attachment 3, June 1998.

The modelling from NATSEM commissioned by the Committee shows wide differences in spending patterns between cameo groups. The results for the ten largest or most sensitive cameo groups is summarised in Table Two:

**TABLE TWO: GST PRICE EFFECTS FOR
DIFFERENT TYPES OF HOUSEHOLD (NATSEM REPORT)¹⁰**

Cameo	Best case (Option 3B)	Worst case (Option 4)
Single person	1.77	3.53
Single age pensioner	3.01	4.51
Couple age pensioner	3.08	4.69
Double income (50/50) no children	1.82	3.56
Single income couple, no children	2.12	4.00
Double income (67/33), no children	1.95	2.90
Sole parent, 1 child	0.99	2.64
Single income family, 1 child under 5	1.11	3.07
Single income family, 2 children 5-12 yrs	1.86	3.59
Double income family, 2 children (67/33) 5-12	1.97	3.67
Self-funded retiree couple	2.37	3.92
Disability support pension	2.10	4.37
Self-employed couple	2.12	3.96
ALL	1.9	3.6

The NATSEM report firmly debunked the Treasury argument that all households had similar price effects, showing that pensioners, disability pensioners, self-employed and couples without children face much higher price effects than single employed

¹⁰ NATSEM report p.23.

people, for example. Unfortunately, the NATSEM report did not calculate price effects for households by income. This is a major failing of the report already referred to in the Main Committee report. This is because the GST effect on the bottom quintile is half as much again as it is on the population as a whole. As Professor Nevile, a distinguished economist said to the Committee:

“If you make corrections for all these differences in consumption patterns the inflationary impact of a GST on low income earners is about 3.5 per cent (rather than 1.9 per cent). It varies, depending on the circumstances of the person: whether they are married or single, whether they have dependent children; whether they are in public housing, and so on. 3.5 per cent is about the middle of the range. Of course, these calculations assume that no business anywhere takes advantage of the changeover to put its prices up somewhat. In fact, despite Allan Fels, I think there will be some effect of this sort. The compensation package is likely to be inadequate and there are some people who will not get any compensation.”¹¹

Table Three, drawn from recent Melbourne Institute and ATAX modelling, highlights the extent to which low income earners will be more adversely affected by the GST than high income earners:

TABLE THREE: IMPACT OF A GST BY INCOME LEVEL

Quintile	Melbourne Institute Price Effect*	% variation from average	ATAX price effect@	% variation from average
Bottom 20%	3.77%	+54.6%	4.77%	+54.9%
Second 20%	2.68%	+10.0%	3.66%	+18.8%
Third 20%	2.63%	+8.0%	2.91%	-5.6%
Fourth 20%	2.37%	-2.8%	2.75%	-10.7%
Top 10%	2.06%	-15.4%	2.43%	-21.0%
All	2.44%		3.08%	

*Average price effect as percentage of average household expenditure. Johnson has modelled the ANTS package in 1993-4 dollars assuming the inclusion of tobacco and housing.¹²

@ ATAX modelling for ACOSS of a 10% GST abolishing WST, FID and BAD in 1996 dollars, excluding tax cuts, modelled as a percentage of average expenditure. ATAX and the Melbourne Institute provide different income ranges for the quintiles.¹³

¹¹ John Nevile, evidence 5/3/99 p. 1740

¹² David Johnson, “Taxation Reform: Directions and Opportunities” Presentation to Centre of Public Policy Conference, 18 February 1999, p.32; Melbourne Institute Tax Reform Report No. 2 1998, p.10.

Had the NATSEM modelling taken income specific spending into account, a much larger number of losers at the lowest level would have been identified.

The NATSEM modelling also fails to produce a proper price effect for the first year of the GST, all of their modelling being second year. The Committee's main report concluded that Option 4 and Option 4B are reasonable approximations of the first year effect. This is because Option 4B shows a similar CPI price effect to that calculated by Treasury for the first year of the GST (2.6%), excluding tobacco and housing. This similarity is not surprising, as Treasury concedes that many indirect tax reductions will not be passed on in the first year. Indeed, the Democrats believe that up to 29% of GST revenue will not be passed on in the first year. These include:

- **Business Stamp Duties \$2.3 billion:** not abolished until at least July 1 2001;
- **FID and BAD \$2.3 billion:** Abolished on January 1 2001, but unlikely to flow through to general price effects for several quarters due to apportioning problems;
- **Slippage in excises \$400 million:** Treasury appears to concede in the ANTS documents that there will be price shifting effects to the tune of around \$400 million excise reductions.¹⁴
- **Denial of input credits on motor vehicles: \$1.4 billion** Input tax credits will not be allowed in 2000/01 and allowed at only 50% in 2001/02.
- **Phasing out of wholesale sales tax: \$1.5 billion:** While Treasury concedes that there will be some timing issues on the passing on of wholesale sales tax cuts¹⁵, the general assumption appears be that the WST will be passed on automatically. Treasury provided the Committee with an analysis of the New Zealand experience which showed that "...70 per cent of the effects of the GST imposition and the GST increase passed through the CPI in the following quarter and most of the effects were evident after another six months."¹⁶ Assuming a 70% pass through in the first quarter, a 90% in the second year and a 100% in the third provides a slippage of \$1.5 billion.

The total of these estimated revenue effects is \$7.9 billion, which is 29% of the \$27.2 billion of GST revenue forecast for 2000/01, and 30.6 per cent of GST revenue if full input credits had been allowed for motor vehicles.¹⁷ In short, Option 4 (including

¹³ Neil Warren "Modelling of Consumption Tax Scenarios" reported in "ACOSS Agenda for Tax Reform" Background to the ACOSS Proposals" Attachment 3, June 1998.

¹⁴ ANTS, p.101.

¹⁵ ANTS, p.100.

¹⁶ A.E.Bollard, "New Zealand's Experience with Consumption Tax", NZ Institute of Economic Research, February 1992, p.10.

¹⁷ ANTS, p.103.

tobacco and housing effects) or Option 4B (excluding tobacco and housing effects) is a more accurate reflection of the likely first year effect of a GST than the Option 3B referred to by the modellers.

What was apparent in both Canada and New Zealand was that the inflationary effect of the GST ended up being considerably more than expected by Governments. In New Zealand, the Government forecast a once-off 5 per cent movement in prices¹⁸, although the final effect ended up being around 7.4%.¹⁹ In Canada, the Government argued that the CPI would increase by just 1.25%, although Statistics Canada said the final price effect of the GST was 1.5%.²⁰ International experience therefore suggests that Government estimates of price effects from a GST need to be treated with a degree of caution, and that robust buffers need to be incorporated into any calculation of effects. Professor Ann Harding also cautioned against over-reliance on the points estimates in the NATSEM modelling, arguing that:

“I think our position fairly clearly this morning was that, for some groups, we expected the price effect to be one per cent higher than the average CPI effect, so that in effect that 1.5 per cent buffer would be reduced to half a per cent, and we felt that was getting a bit too close for comfort – that because this is an average effect, once you got to only half a per cent margin, you might expect that some people would be losers whereas other people might be winners to the tune of more than the half of a per cent.”²¹

Professor Warren gave the Committee a similar warning:

“An average goes both ways. There are people above it and people below it. In a sense, what you are looking for is how important that variation within those groups is for those people, where that group on average is sailing too close to the wind, and that type of issue. If they are quite close to the 3.4, even though we indicate on an average basis that they are still the beneficiary, on average there could be some groups within that who are the losers.”²²

The Democrat share those concerns. We are concerned that the forecast price effects from the Government and replicated by NATSEM may prove too optimistic, based on overseas experience. We are also concerned that the cameos do not take into account income, and that as averages, they would cloak considerable numbers of losers. From a point of view of assessing the impact of the package, we believe that groups showing even very small benefits under the “best case” scenario of Option 3B but

¹⁸ R Douglas, “Statement on Taxation and Benefit Reform”, (1985), New Zealand Government Printer, p.10.

¹⁹ Bollard *ibid* p.11.

²⁰ N Brooks, “Sales Tax Reform and Tax Mix Change: A Canadian Perspective” in Head J ed. “Fightback: An Economic Assessment”, Australian Tax Research Foundation 1993, p.285.

²¹ Evidence 8 April 1999, p.2402.

²² Evidence, 8 April 1999, p.2405.

showing as losers under the worst case scenario of Option 4 need to be regarded as groups likely to include considerable numbers of losers.

Any reasonable analysis of the impact of the GST should really look at the range of estimates, treating Option 3B as the most optimistic second year effect, Option 4 as a pessimistic (but quite realistic) first year effect, and note that both options understate the impact on low income earners by about 50% because they fail to take into account income levels.

Approaching the analysis of the GST in this way, around 12 groups of people in the cameos appear as groups who are or are likely to be worse off as a result of the GST, which are listed in Table Eight .

The cameos, by their calculation, miss very large chunks of the population. Because they cover only hypothetical households, they do not necessarily reflect real life. For example, the cameos assume that all persons claim the maximum social security benefits, therefore missing the large number of low income earners not receiving social security . According to NATSEM, there are 725,000 single people on less than \$300 a week and 181,000 couples without children on less than \$450 a week receiving no social security payments. That is a huge group – 1.1 million Australians largely not picked up by the cameos. The NATSEM figure is not dissimilar to the 1996 ABS estimate of single person income units and couple units, as outlined in Table Four:

TABLE FOUR: PEOPLE OUTSIDE THE SOCIAL SECURITY NET²³

Group	NATSEM 1998*	ABS 1996@
Single Income earners on less than \$300 a week	725,082	530,800
Couples without children on less than \$450 a week	181,188	227,200
TOTAL NUMBER	1,087,458	985,200

*STINMOD estimates of total population less Government Cash Benefit recipients.

@ ABS cat. 6523.0, single income units (below \$300) and couples (below \$400) with principal source of income not being Government benefits.

This group of people will receive compensation only through tax cuts. However, given low income earners effectively pay no tax on the first \$6,150 of income, and single income couples on incomes of up to \$13,400 a year pay no tax (due to the Dependant Spouse Rebate and the Low Income Earners Rebate), this group will be clearly undercompensated as tax cuts will be insufficient to offset GST price effects. Tables 5-7 reflect a rough attempt to calculate the impact of the GST on these groups.

²³ Populations estimates from the NATSEM report p.11, apportioned according to the income distribution in NATSEM's STINMOD model.

Table Five: Single person, no social security benefits (\$p.w.)

Income	Tax Cut (p.w.)	GST effect best case (p.w.)	GST effect worst case (p.w.)	Net effect Best case	Net effect worst case
10000	4.60	4.85	9.68	-0.25	-5.08
15000	7.47	5.28	10.53	2.19	-3.06
20000	10.35	6.87	13.69	3.48	-3.35
25000	12.30	7.29	14.54	5.01	-2.24

Table Six: Couple, no children, one income, no social security benefits (\$p.w.)

Income	Tax Cut (p.w.)	GST effect best case (p.w.)	GST effect worst case (p.w.)	Net effect Best case	Net effect worst case
10000	0.00	6.3	11.88	-6.3	-11.88
15000	0.00	7.25	13.68	-7.25	-13.68
20000	19.93	9.15	17.27	10.78	2.66
25000	21.89	9.56	18.04	12.32	3.84

Table Seven: Couple, no children, (67/33 split), no social security benefits (\$p.w.)

Income	Tax Cut (p.w.)	GST effect best case (p.w.)	GST effect worst case (p.w.)	Net effect Best case	Net effect worst case
10000	0	6.3	11.88	-6.3	-11.88
15000	4.63	7	13.20	-2.37	-8.57
20000	9.20	8.93	16.84	0.27	-7.64
25000	12.07	9.64	18.20	2.43	-6.12

NOTE: The "best case" is NATSEM's Option 3B second year effect excluding tobacco and housing. The "worst case" is Option 4 on a first year 2000/01 CPI effect including tobacco and housing. Price effects for GST incorporate an adjustment for income levels from the relevant income quintile in ATAX distributional modelling.

Clearly, low income couples without children and singles without social security are at risk of being worse off under the GST. Adding those to the estimated numbers of losers in the 12 cameo groups who are at risk of being worse off allows a preliminary

estimate of the number of Australian affected to be produced.²⁴ The results of this analysis are incorporated into Table Eight, showing 4.9 million people are at risk of being worse off under the compensation measures offered by the Government.

TABLE EIGHT: GROUPS LIKELY TO BE LOSERS UNDER THE GST*

Group drawn from cameo	No. of people affected
Single people without private incomes or couples with less than \$5000 private income (i.e. the unemployed)	731,000
Single people earning between \$15-35,000	1,160,000
Single income couples with no children on less than \$40,000	355,000
Dual income couples (50/50 split) on incomes between \$30-60,000 (i.e. receiving no social security benefits)	358,000
Dual income families (50/50) with a child over 5 years and incomes of less than \$25,000 or between \$35-60,000	84,000
Dual income couples (67/33 split) on incomes between \$30-55,000 (i.e. no social security);	98,000
Single age pensioner with no private income	473,000
Age pensioner couple with up to \$5000 of private income	559,000
Single self-funded retiree with \$10,000 of private income or between \$25,000 - 40,000	11,000
Self funded retiree couple on \$15-25,000 of income	49,000
Students living away from home and private incomes of less than \$10,000	3,000
Disability support pensioners with incomes of up to \$10,000	122,000
Single income earners on less than \$15,000 a year without social security	725,000
Couples on less than \$450 a week without social security @	199,000
TOTAL	4,927,000

(* All groups showing a negative impact of the GST under any of the scenarios modelled by NATSEM are regarded as potential losers. The marginal gains (less than 2%) in the best case scenario (Option 3B), would be largely washed out if income-specific spending patterns were taken into account. At such low levels of gains, the averaging of benefits will cloak a large number of losers.

@ Figure excludes couples included in other cameos).

²⁴ Media release, Senator Meg Lees, 18 April 1999.

The Democrats conclude that upwards of 4.9 million are likely to be losers from the GST under the compensation plan proposed by the Government.

PART III: WILL COMPENSATION WORK?

Reference 2(d), (e), (f), 3(b), (c), (u)

A large number of witnesses, including business groups²⁵, have urged the Senate to push to increase the compensation rather than zero-rate food. However, church and welfare groups questioned whether compensation was better than zero-rating food. Bishop Patrick Power of the Catholic Social Welfare Commission argued:

“There is a human dignity aspect involved in that too. It means that, because people are being taxed more indirectly, they have to be compensated and, therefore put in a position where they are being asked to put out their hands for handouts. That, in a way, is demeaning to their dignity as well... ..If a tax package is so structured that some people need to be compensated, that in fact is an affront then to the people so injured in such a way that they will then need compensation.”²⁶

Bishop Andrew Curnow of Anglicare agreed, arguing that the compensation is not just inadequate, but is unlikely to last:

“Where there has been compensation packages for food in those countries with a GST, those compensation packages for food have been eroded within a short period of time. New Zealand is an example. Although the government keeps giving the public an assurance that they are going to make sure the compensation is in fact ahead of any impact, I do not think that anybody is convinced.”²⁷

A large number of organisations involved in the welfare sector urged the Senate not to proceed with the compensation approach, but instead look at removing food and the other necessities of life. These included:

- Australian Council of Social Services²⁸ and its affiliates²⁹;
- Anglicare³⁰
- Brotherhood of St Laurence³¹

²⁵ Australian Food & Grocery Council, Australian Business evidence, 17 March 1999, p.1939.

²⁶ Bishop Patrick Power, Evidence 26 March 1999, pp 2226-28.

²⁷ Bishop Andrew Curnow, Evidence, 5 March 1999, p.1754.

²⁸ ACOSS, Submission No. 68.

²⁹ NCOSS, Submission No. 640, VCOSS, Submission No. 604, TasCOSS, Submission No. 872, SACOSS, Submission No. 922.

³⁰ Anglicare, Submission Nos 624 and 237.

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- Australian Catholic Bishops Conference³²
 - Australian Social Welfare Commission³³;
 - Australian Catholic Social Justice Council³⁴
 - Catholic Social Services³⁵;
 - Centacare Family Services Townsville³⁶;
 - Lutheran Community Care³⁷
 - Uniting Church Community Services³⁸
 - Australian Consumers Association³⁹
 - Australian Education Union⁴⁰
 - Independent Education Union⁴¹
 - Construction Mining & Forestry Union (Tasmanian Forestry Branch)⁴²
 - Australian Association of Social Workers⁴³

In short, only the Government, business groups and economists argued that compensation was preferable to zero-rating of food. Professor Harding conceded that if the compensation could not be guaranteed, the food approach was preferable:

“I guess that does call into question the whole question – the whole food in food out issue – because Option 7 was predicated on the assumption that you would try to buttress the compensation package at the bottom end with more generous compensation and that that compensation would be

³¹ Brotherhood of St Laurence, Submission No. 848.

³² ACBC, Submission No. 602.

³³ ACSWC, Submission No. 1034.

³⁴ ACSJC, Submission No. 558.

³⁵ CSS, Submission No. 929.

³⁶ CFS, Submission No. 1009.

³⁷ LCC, Submission No. 765.

³⁸ UCCC, Submission No. 935.

³⁹ ACA, Submission No. 928.

⁴⁰ AEU, Submission No. 626.

⁴¹ IEU, Submission No. 930.

⁴² CFMEU, Submission No. 982.

⁴³ AASW, Submission No. 1067.

maintained through time. It looks to me now as though Treasury are questioning the validity of both of those assumptions.”⁴⁴

Problems with the compensation approach include:

- **It won't reach all who need it;**

The compensation is based on either tax cuts or access to social security payments. However, for 1.1 million Australians, neither will reach them. These are the very low income Australians living on private income rather than social security. Many of them are in rural areas, where incomes tend to be lower and food prices higher. Fightback! recognised this problem, offering a refundable tax credit of up to \$336 for a single person and \$570 for a couple to the estimated 2.3 million people falling outside the compensation net. Rebates were also offered for pensioners and social security beneficiaries with partial private income, accepting that compensation becomes inadequate over the range of incomes as the benefit is withdrawn.⁴⁵

The Howard Government's ANTS package does not provide any reasonable compensation for those falling outside the social security system. Indeed, despite Mr Howard's "iron clad guarantee" to maintain the social security safety net prior to the 1996 election, the Howard Government has moved to push even more Australians out of the system. Departmental figures obtained by the Parliamentary Library reveal that in 1996-7 an estimated:

- 32,000 people were pushed out of the safety net because they were migrants;
- 87,000 people were pushed out due to extended waiting periods because of other income;
- 12,900 retrenched older workers were denied payments because they had superannuation payouts;
- 16,000 people were pushed out of the net because of an increased waiting period on liquid assets;
- 113,000 people had payments reduced or cancelled due to failure to comply with administrative requirements.⁴⁶

That is a total of 260,900 people for whom the social security system has been deliberately redesigned in the last two years to exclude.

This is despite the pre-election commitment from John Howard to ACOSS that:

⁴⁴ Ann Harding, Evidence 8 April 1999, p.2402.

⁴⁵ Fightback!, Liberal Party, pp 160-66.

⁴⁶ "Rights Review", Welfare Rights Centre, June 1998, p.14.

“I want to make it unambiguously clear today that we will not be eroding the safety net that underpins our social security system.”⁴⁷

Research shows that the cuts to the social safety net in the 1996 Budget – in breach of direct pre-election undertakings – cut the disposable income of the bottom third of households by \$7 a week, rising to \$38 a week where the main breadwinner was unemployed.⁴⁸

- **It won't be adequate:**

The firm consensus of Warren and Harding in the NATSEM report, and by other commentators who have addressed the Committee including Geoff Carmody from Access Economics is that the compensation clearly is not adequate.

Warren and Harding argued for an increase in pensions from 3.4% to 6% in 2001/02 (i.e. 6.5% in 2000/01) in their Option 7. However, Option 7 still did not compare favourably with the food option, leaving pensioner couples just 65 cents a week or less “better off” with private incomes of \$290 a week or more. Indeed, had the cameo been calculated taking into account the income specific spending patterns, couples with incomes of \$5000 or more would have been shown to be better off when food was GST-free, as would single age pensioners with any private income.

In short, if the objective of compensation is to ensure that pensioners (including those with modest private incomes) are better off than if food was GST-free, then the pension increase would need to be at least 7% in 2001/02 (7.6% in 2000/01). This increase in pensions and allowances would add \$1.5 billion to the compensation bill.

This increase would be solely for the impact of the GST, and should not be double counted into the already legislated increases in pensions guaranteed at the 25% of Male Ordinary Time Earnings benchmark. As Geoff Carmody of Access Economics told the Committee, within about three years, the compensation for pensioners would have been overtaken by the already legislated increases indexed to MOTE.

How do we overcome this problem? What is needed is that the GST compensation should be **over and above the MOTE benchmark**. This would mean that in 2000/01, pensions should rise by MOTE PLUS 7.6%. That is the level of compensation required to ensure that pensioners are left in **exactly the same financial position than if the GST was never implemented**. The guarantee of the MOTE benchmark over and above the compensation would add about \$900 million to the compensation bill, declining in future years.

The increase in age pensions would also result in family payments being increased, as they are indexed to age pension rates. The additional compensation for pensioners

⁴⁷ John Howard speech to ACOSS National Conference 13 October 1995, p.6.

⁴⁸ Johnson D and Hellwig O, “Evaluation of the Distributional Impact of the 1996-97 Budget on Australian Households”, Melbourne Institute, NIEIR, Perth, January 1997.

would result in a \$365 million increase in family allowances if current relativities between the two payments are to be maintained.

Warren and Harding have also proposed that the Aged Pensions Savings Rebate needs to be doubled. The Committee has received a large number of submission from self-funded retirees not eligible for this measure, particularly workers aged over 55 who have been retrenched and forced to live on their super due to the 1996 Budget decision to deny them access to employment benefits. Doubling the bonus and extending it to all retired persons aged over 55 would cost \$300 million

- **It won't last**

As demonstrated by Access Economics, unless the MOTE guarantee is maintained by the Government in addition to the GST specific increase in pension payments, then the compensation for the GST will be overtaken by the already legislated increase in MOTE-linked pensions by around 2002-3⁴⁹ In short, the compensation for pensioners is entirely illusory. By 2002, they will be expected to cop an increase in the cost of living of up to 3.8 per cent without any additional compensation. The same argument applies to Family Payments. ACOSS has estimated that over a million low income families will see their compensation eroded by the increases in Family Payments that would have occurred anyway within 3-5 years.⁵⁰

For other social security beneficiaries, the compensation is reliant on Government not continuing to tighten access to the social security safety net. Given that Government action pushed 261,000 people out of the system as a result of the 1996 and 1997 Budget decisions, it cannot be guaranteed that administrative action won't be used to further restrict access to payments and hence to GST compensation. A refundable tax credit would be essential to prevent such abuse, and to ensure that low income earners outside the social security system maintain their benefits. A rebate of \$250 paid to all low income earners on incomes below \$300 a week, and of \$500 to couples on less than \$450 a week without social security support, with the credits tapering out at 3 cents in the dollar, would cost \$450 million.

Inevitably, as welfare to work reforms gain vogue, more and more beneficiaries will be expected to have a combination of private income and welfare support. This group is significantly disadvantaged in terms of compensation, a point recognised in Fightback! with the payment of a special credit for pensioners and beneficiaries with private income. The Government has offered to reduce the taper rate on pension withdrawal from 50 to 40 cents as partial compensation. However, the higher 70 cent taper rate on other social security benefits was left in tact. As former Finance Department head and family policy researcher Dr Michael Keating told the Committee, this taper creates a massive poverty trap for around 40,000 Australians⁵¹.

⁴⁹ Access Economic analysis cited in Effem Foods, Submission No. 1023, p.11915.

⁵⁰ Michael Raper, ACOSS press release, 13 April 1999.

⁵¹ Dr Michael Keating, Evidence, 26 March 1999.

Reducing the taper to 50% as recommended by Dr Keating and ACOSS would improve the financial position of social security beneficiaries with modest private income who are at risk of being left worse off while also removing the worst poverty trap in the social security system. This measure would cost around \$500 million.

For taxpayers without any social security payments, the compensation for the GST is reliant entirely on tax cuts. The ACTU has argued that the tax cuts are basically refunds for bracket creep since the 1993 tax cuts.⁵² Indeed, by year 2000, it will have been seven years since the income tax scales were last reviewed, as opposed to the reviews every 2-3 years that occurred during the 1970s and 1980s. Since scales were last reviewed in 1993, incomes have risen by around 27 per cent.

Unless the tax thresholds are indexed, then the value of tax cuts to taxpayers and hence the compensation for the GST will quickly erode over time, a point noted by the ACTU and Geoff Carmody. Full indexation of tax scales (assuming 4% annual wage movements) would cost about \$1.3 billion a year. Failure to index the tax scale will mean that the compensation for the GST for taxpayers will be reduced by \$1.3 billion a year, and will be basically eliminated within two to three years.

- **It needs to go beyond income support and acknowledge that taxes on food hurt regional areas hardest**

A decision to opt for compensation rather than zero-rating food will have significant adverse effects for rural Australia. In the short-term, there will be a loss of 10,600 jobs in food and agricultural industries according to Monash modelling⁵³ This will result in significant job losses in regional areas, especially in the very hard pressed western and Riverina regions of New South Wales, the northern riverlands of Victoria, the western, Mackay and far north regions of Queensland, all of rural South Australia, the wheatbelt and central and far north of Western Australia and southern Tasmania. In all, 2561 jobs will be lost from remote rural communities, as opposed to 36,000 jobs being created mostly in metropolitan areas.⁵⁴

A number of rural groups have appeared before the Committee expressing concern about the impact of a GST on fresh food on their industries⁵⁵. Clearly, if the GST on food is supported by the Parliament, it must be accompanied by a Rural Adjustment Plan for those rural areas that are clear losers under the GST, particularly in remote areas. At least \$200 million would be need to be allocated.

⁵² Grant Belchamber, Evidence, 4 February 1999.

⁵³ Monash report to the Senate Employment Committee, pp 13-14.

⁵⁴ Ibid, pp 17-18.

⁵⁵ Australian Fresh Stone Fruit Growers Association, Evidence, p.1072; Mackay Fruit and Vegetable Growers Association, Submission No. 951; the Banana Sectional Group Committee of the Queensland Fruit and Vegetable Growers, Evidence, pp 1403-4; Australian Beef Association, Submission No. 459, Dairy Farmers Organisation, Submission No. 1039.

The GST will also increase living costs in regional areas more than in urban areas because food prices are already higher and incomes are already lower.⁵⁶ A number of submissions have suggested that a rebate will need to be payable to tax payers and beneficiaries in regional areas to ensure that they are compensated for the higher cost of living, particularly in respect of food prices. A \$200 a year rebate to regional households on below average earnings would cost about \$400 million.

TABLE NINE:

WHAT A COMPENSATION PACKAGE NEEDS TO LOOK LIKE

Measure needed	Cost
1. Increase all pensions and benefits by 7.6% in 2000	\$1.5 billion
2. Maintain the separate increase for age pension of 25% of MOTE	\$0.9 billion
3. Maintain the relationship between Family Payments and MOTE	\$0.36 billion
4. Refundable tax credits for low income earners without benefits	\$0.45 billion
5. Reduce taper on benefits from 70% to 50%	\$0.5 billion
6. Indexation of tax scales	\$1.3 billion
7. Rural adjustment package	\$0.2 billion
8. Tax rebate for food costs in rural areas	\$0.4 billion
9. Extend Aged Pension Bonus	\$0.3 billion
TOTAL	\$5.91 billion

The above measures are quite expensive (\$5.9 billion), and would require paring back tax cuts on incomes above \$20,000 to fund them. This will particularly hurt families in the \$20-60,000 income range, a point demonstrated by the fact that most families are better off in Option 3B (Food Out) than under Warren/Harding's preferred Option 7 (the compensation option). To offset the impact of reduced tax cuts on middle income earners on families, the Family Tax Rebate might need to be increased by about \$5 a week per child. This would cost a further \$1 billion, which in turn would need to be funded.

In conclusion, the Government's compensation package is hopelessly inadequate. The cost of a comprehensive compensation package would be quite high. The Democrats

⁵⁶ Australian Consumers Association, Submission No. 928; ATSIIC, Submission No. 801; Anglicare Tasmania, Submission No. 732; National Rural Health Alliance, Submission No. 732.

recommend that a minimum compensation package would need to include the outlined measures. Anything less leaves the real risk that 4.9 million people, particularly in regional Australia and all on less than average incomes, will be worse off under the GST.

However, the cost of these necessary compensation measures is such that it is likely that the measures themselves would become the target of future Budget cost cutting as occurred in New Zealand.

The Democrats conclude therefore that the compensation route is fraught with difficulties. It is likely to miss many adversely affected groups unless billions more is allocated to the task. In that event, the compensation measures themselves become more vulnerable to Budget cutting in future years.

PART IV: WHY FOOD SHOULD BE GST-FREE

Reference 2(d), (g), 3(a), (u)

The Democrats have considered very carefully the evidence presented to this Inquiry on the issue of the taxation of food. We have firmed in our position that food should be zero-rated, while acknowledging the need to minimise the compliance costs of an unworkable food definition, and compensating small business for any additional costs incurred. There are several key reasons why food should not be taxed:

- **Taxing food makes the GST regressive:**

Food makes up 24% of the expenditure of low income earners, but only 12% of the expenditure of high income earners. Because food is essentially not taxed now through the Wholesale Sales Tax system (other than confectionary) the price of food, particularly fresh foods, will rise by three times the price of goods and services as a whole. Indeed, 1.4 per cent of the 1.9 per cent CPI effect calculated by Treasury – three quarters of the need for compensation – comes because of the taxation of food. NATSEM found that the price index for pensioners dropped by nearly twice the average price fall in modelling with food out.⁵⁷

- **Making food GST-free does not affect the benefits of tax reform**

The modelling commissioned by the Select Committee for its first report from Econtech and Monash University showed quite similar results – that a GST excluding food delivered exactly the same long term outcomes for GDP growth, business investment, exports and welfare, as a GST that included food. All the benefits of tax reform can be delivered with a GST that excludes food. Indeed, in the short run, making food GST-free would generate an extra 8-12,000 jobs by reducing the tax mix switch between direct and indirect taxes.

⁵⁷ NATSEM report, p.31.

- **Making food GST free helps rural Australia**

Increases in prices of fresh fruit, vegetables, meat and cereals will inevitably affect the consumption patterns, and lead to a reduction in domestic sales. In the short-term this will lead to the loss of 10,600 jobs in food and agricultural industries, the reduction in incomes of rural producers in many sectors, the loss of 2,500 jobs from outer rural regions to the cities, and increased compliance costs for farmers. By contrast, zero-rating food doubles the long-term economic benefits to agriculture, increases consumption of fresh foods (due to lowering of prices) and will generate extra jobs in food and agricultural industries.

- **Making food GST free will improve public health standards**

Currently, junk foods are taxed, while fresh food is tax free. This creates a competitive advantage. However, a GST on food will see junk food prices rise only 1.7 per cent, a quarter of the price increase for fresh foods. A large number of health organisations have expressed concerns to the Inquiry about the impact that such pricing changes will have on Australia's nutrition, our tendency as a nation to obesity and eventual flow-on costs to the health system.

- **Making food GST-free is more effective than trying to compensate for taxes on food**

The NATSEM report concluded that zero-rating food, paid for by tax cuts was progressive in comparison with ANTS, “..transferring money away from higher to lower income groups”.⁵⁸ However, the report goes on to argue that the distributional outcomes of food-out can be “..reasonably replicated by an alternative approach where food remains in the GST base but compensation is more generous and better targeted.”⁵⁹ This statement is patently untrue, as the modelling of Option 7 does NOT replicate the modelling of Option 5B (i.e. the food out option). For example:

- Single income earners on incomes of \$20,000 - \$35,000 are better off with food out than with compensation, while high income earners are up to \$6 a week better off under the compensation option;
- Single income couples without social security on less than \$25,000, or with private income of between \$30-40,000 are better off with food out, while high income earners are marginally better off with food in;
- Single income couples with a child aged 5-12 years are better off with food out than with the compensation package;
- Dual income couples with no children on less than \$55,000 are better off with food out, while high income couples are better off with food in;

⁵⁸ NATSEM report, p.32.

⁵⁹ Ibid, p.41.

- Dual income couples (50/50 split) with children and on incomes between \$30 – 60,000 are mostly better off with food GST-free. For example, for a family on \$40,000 (50/50 split), the GST bill would fall by almost \$9 a week if food is GST-free;
- Single age pensioners with private income of \$5,000 are just 29 cents a week better off under the compensation option, a result likely to be negative if income effects had been taken into account, and a result certainly negative for those who fall below the average;
- Age pensioner couples with \$15,000 of private income are just 65 cents a week better off with compensation, are likely to be worse off if income effects had been taken into account, and a result certainly negative for those who fall below the average;
- Singles with no social security (all 725,000 of them) and couples without children with no social security (all 181,000 of them) on low incomes would be better off with food out than with a compensation package that totally fails to get to them.
- All high income earners are better off with food taxed, because they get to keep more of the quite unjustified \$86 a week in tax cuts that the Government has offered.

The Democrats cannot understand why a distributional model of food being taxed, increasing the living costs of a low income couple by \$5.60 a week, to fund extra tax cuts for high income earners worth \$14.40 a week can be regarded as replicating the distributional benefits of food being GST-free. Simply put, not taxing food, paid for by reduced tax cuts for high income earners, delivers far better fairness outcomes than leaving the bulk of the tax cuts in place and offering an ineffective, incomplete and likely unstable compensation package.

For example, not taxing food would reduce the GST impact on pensioners by two thirds, from \$6.43 a week to just \$2.31 a week. This all but eliminates the concern about the 25% of MOTE benchmark being retained as the need for compensation is so substantially less, and the legislated MOTE increases will not have to be double counted as “compensation”.

- **Making food GST free will not create a compliance nightmare**

The Committee has heard all sorts of claims that a food definition would be impossible to police and would add hugely to compliance costs. However, for all of the assertion and photocopied VAT Circulars from other countries, no empirical evidence of the size of the problem has been produced. The only rough estimate of the likely compliance costs came from the Australian Society of Certified Practising Accountants. Based on a US academic report, and assuming 300,000 food outlets (including restaurants and takeaway food outlets) are impacted by the GST zero-rating

of food, the ASCPA estimated that the compliance costs faced by small business would be \$100 million.⁶⁰ The Democrats Election Policy actually called for \$120 million of compensation for small businesses affected by the zero-rating, in other words, small business would be overcompensated for the problems created by zero rating.

However, as the Main Committee report has shown, the ASCPA estimate of compliance costs is a gross overstatement, particularly if restaurants and takeaways are excluded from the definition. In that case, the zero-rating would affect only 40,000 retail outlets⁶¹, at a compliance cost (using the ASCPA approach) of just \$13 million, or a pro-rating approach of \$24-40 million. That cost is an awful lot less than the cost of compensating the 3.6 million Australians living on less than \$400 a week who would be worse off if the food that they eat was taxed at 10 per cent.⁶²

The Democrats do acknowledge the need for a well understood and useable definition of food is necessary to minimise compliance costs and disputes.

PART V: WHAT IS “FOOD”

The issue of defining what is food for tax purposes is not a problem unique to Australia. Of the 27 OECD countries with a VAT/GST, 23 of them have some tax distinction on what is food. If a workable definition can be found in 23 countries representing some 700 million people, then surely Australia is no different. The Democrats have listened very carefully to the evidence on this issue, and present the following summary of the definition issues involved:

- **Food other than restaurants and takeaway food (the British option)**

Treasury has costed this option as costing \$4.45 billion in 2000/01 and \$5.24 billion in 2001/02⁶³. It has been the definition used in most modelling of this Committee and the one on the table for debate by witnesses. This is the definition that the Democrats proposed during the election campaign. We based our position broadly on the UK and Canadian situations where restaurants and takeaway foods (and some snack foods) are taxed. Our principle reason for moving to not include restaurants and takeaways in the food definition was that the taxation of meals out is strongly progressive – meals out make up 6% of the total expenditure of the top 20% of households, but just 3.6% of the spending of the bottom 20% of households. Further, meals out make up 18% of

⁶⁰ Angela Ryan, ASCPA press release, 10 February 1999.

⁶¹ See Chapter Five of the main report, also ABS Retail Industry 1991-92, cat. No. 8625, p.11.

⁶² ABS Income Distribution 1996-7, cat. No. 6523.0, p.14.

⁶³ Treasury costing provided in correspondence, 28 January 1999.

the food bill of low income earners, but 35% of the spending of high income earners' food bills.⁶⁴

Further, the Canadian and United Kingdom tax systems, despite their very complex food definitions, have what appear to be quite low compliance costs in comparison with countries that tax all food like New Zealand or treat all food concessionally like the Netherlands.⁶⁵

However, a number of submissions, including evidence by the Australian Food and Grocery Council⁶⁶, the ASCPA⁶⁷, the National Association of Retail Grocers⁶⁸, the Institute of Chartered Accountants⁶⁹, the Australian Tax Office⁷⁰, McDonalds Australia⁷¹ and Effem Foods⁷² all drew attention to definitional problems in the Canadian or UK environments. The Tax Commissioner used particularly colourful prose, referring to the classification of doughnuts, hot and cold pies, gingerbread men, puddings, pasties and sweet and sour biscuits, all of which have differing treatments dependent on temperature, timing, volume, sweetness or numbers in some countries.⁷³

McDonalds Australia argued that the option would have a considerably negative effect on employment in their industry, pointing to the evidence of job losses in the Canadian fast food industry after the GST was introduced and arguing that up to 23,000 jobs could be lost in the fast food service industry⁷⁴. Whether the jobs losses in Canada were due to the GST or the severe recession caused by inappropriate monetary policy in Canada in the early 1990s is however, unclear⁷⁵. Chris Murphy, for example, in his modelling for the main Committee would result in a long-term loss of 1,300 jobs in the Accommodation, Restaurants and Cafes sector if food was out, offset by gains in agriculture and food manufacturing.⁷⁶ By contrast, he found that taxing food would still leave 7000 jobs lost in the accommodation, cafes and restaurants sector – a policy supported by McDonalds as their preferred position.

⁶⁴ ABS Household Expenditure Survey 1993-4 cat. No 6530.0, p.6.

⁶⁵ Michael Walpole Submission No. 1392, p.14811.

⁶⁶ AFGC, Evidence, 17 March 1999.

⁶⁷ ASCPA Submission No. 207.

⁶⁸ NARGA, Submission No. 205.

⁶⁹ ICA, Submission No. 1033.

⁷⁰ ATO, Evidence, 26 March 1999.

⁷¹ McDonalds, Submission No. 552.

⁷² EFFEM Foods, Submission No. 1023.

⁷³ Michael Carmody, "Speech to the Taxation Institute", Hobart, 24 March 1999, pp 13-19.

⁷⁴ McDonalds, Submission No. 552, pp 4388-89.

⁷⁵ Neil Brookes, *ibid*, p.285-6.

⁷⁶ Econtech report, pp 43-6.

The Democrats acknowledge that if this definition of food were chosen, then the definition of food would need to minimise market distortion between the takeaway and grocery retail sectors. A definition that, as far as possible, treated food products consistently irrespective of who sold them and when would be essential. This suggests that the definition adopted for Australia would need to be somewhat different from that adopted in the UK and Canada, and accept that some grocery items that are primarily of a takeaway food nature (e.g. meat pies) should always be taxed.

However, having considered the evidence, the Democrats can see some merit in also considering a narrower or wider definition of food.

- **All food out (the Dutch option)**

Of the 23 OECD countries that concessionally tax food, the Netherlands, Luxembourg, Portugal and Spain treat all food, including restaurants, at the same concessional rate of tax. Taking out all food, including restaurants and takeaway foods, would cost \$5.38 billion in 2000-01, rising to \$6.34 billion in 2001-02⁷⁷.

This option has been promoted by the Australian Food and Grocery Council and McDonalds Australia as their next preferred position after all food being taxed.

The advantages are:

- There would be no demarcation disputes about food items as all food items would be zero-rated;
- It would ensure that there is no market distortion between the grocery trade (and its growing in-house prepared meals market) and takeaway food outlets;
- It would minimise job losses in the takeaway food industry;
- It would totally eliminate the tax mix switch in the ANTS proposal, ensuring that all GST revenue is used only to abolish other indirect taxes rather than fund income tax cuts.

The disadvantages are:

- While it would reduce compliance costs slightly for grocery stores, it would increase compliance costs overall as the number of traders affected by making food GST-free would increase from 40,000 to around 300,000, including outlets with only minimal food sales like newsagents, clubs and service stations;⁷⁸

⁷⁷ Treasury costing provided in correspondence on 14 April 1999.

⁷⁸ Carmody, *ibid*, p.13.

- It would provide a larger benefit to high income earners than a narrower definition, reducing the argument for progressivity of the food exemption;
- It would be considerably more expensive and require the cancellation of more than half of the tax cuts to fund it.
- It would take out of the GST revenue net one of the fastest growing sectors of the economy (cafes and restaurants) thereby reducing future GST revenue growth projections.

The Dutch option is however worthy of careful consideration. It solves the definitional and market distortion problems, but creates a larger hole in revenue.

- **Basic food out (the Irish option)**

This option would cost about 20% less than the first option, or about \$3.6 billion in 2000/01 and \$4.2 billion in 2001/02. Under this option, the only foods which are exempted would be basic groceries. Most of the OECD countries appear to define food as essentially basic groceries. The Irish VAT system for example, provides a zero-rating for all food other than⁷⁹:

- Soft drinks and cordials;
- Ice-creams;
- Confectionary;
- Bakery products other than bread;
- Potato crisps;
- Savoury products;
- Prepared foods served hot or at ambient temperature

This is a broader definition of exclusion than occurs in the taxing of confectionary goods under the Wholesale Sales Tax because of the inclusion of bakery products other than bread. Interestingly, the exclusion of bakery products other than bread would resolve all of the compliance issues referred to by the Tax Commissioner and most other submissions to the Inquiry about donuts, pies and gingerbread men.

However, if this option were adopted, it may need to go a little wider. McDonalds Australia, in its submission also proposed that if the wide definition of food was not accepted, then, consideration should be given to ensuring that prepared meals sold in supermarkets are also taxed:

⁷⁹ "Guide to the VAT", Irish Revenue Commissioners, 1994, p. Appendix B.

“To minimise distortions prepared food (ready to heat, cook, eat etc.) sold from a grocery store should be treated the same for GST purposes as prepared food sold by the food service industry elsewhere.”⁸⁰

McDonalds points out that pre-packed meals are a growing business line in supermarkets, comprising 21% of meals in the United States and rapidly being developed by Coles and Woolworths. The Canadian Restaurants and Foodservice Association sought to have a similar definition included in the Canadian GST, which called for zero-rating to be limited to fresh produce, and to ingredients and food products that require some degree of further preparation. Canadian tax consultants Poddar and English commended the definition:

“It deserves serious consideration in Australia and other countries that are confronted with serious opposition to the extension of the tax on food. It minimises arbitrary distinctions between taxable and zero-rated food products, simplifies the administration of tax, yields additional revenues and lessen the tax discrimination against foodservice establishments. Even if governments do not want to tax all prepared meals, they should at least extend the tax to all single servicing of prepared meals sold in a grocery store.”⁸¹

The proposition to zero-rate only basic foods received strong support from public health organisations, dietitians and nutritionists concerned that the 1.7% rise in confectionary food prices and the 6.7% rise in fresh produce would result in a fall in nutritional standards of Australian diets.⁸² It was also strongly supported by a number of primary producers and primary producer organisations, concerned that their products would lose market share to junk foods.⁸³ Finally, it should be noted that basic groceries constitute 83 per cent of the food purchases of the bottom quintile as opposed to 77.7% for the top quintile. However, rises in basic foods due to a GST make up 88% of GST impact due to food prices for the bottom 20%.⁸⁴

⁸⁰ McDonalds, Submission No. 552, p.4392.

⁸¹ Satya Poddar and Morely English, “The Canadian Goods and Services Tax – Some Lessons for Australia?” in Head J ed. “Fightback – An Economic Assessment”, Australian Tax Research Foundation, 1993, p.56.

⁸² Dietitians Association of Australia, Submission No. 796; Public Health Association Submission No. 895; National Rural Health Alliance, Submission No. 732.

⁸³ Australian Fresh Stone Fruit Growers Association, Evidence, 23 February 1999, p.1078; Mackay Fruit and Vegetable Growers Association, Submission No. 951; Dairy Farmers Organisation, Submission No. 1039; Dr Graeme Cole, Submission No. 1217.

⁸⁴ ABS HES, *ibid*.

PART VI: FUNDING FOOD-OUT AND IMPROVING THE PROGRESSIVITY OF INCOME TAX

Reference 3(c), (e), (u)

By any reasonable measure, the tax cuts proposed in ANTS will reduce the progressivity of the income tax system, delivering the largest tax cuts in percentage terms to high income earners, as shown in Table Ten:

**TABLE TEN: INCREASE IN DISPOSABLE INCOME DUE TO TAX CUTS
(IGNORING GST EFFECT)⁸⁵**

Income p.a.	Tax Cut per week	% Change
\$15,000	\$6.80	2.7%
\$25,000	\$12.31	3.2%
\$35,000	\$19.98	3.9%
\$45,000	\$39.74	6.4%
\$55,000	\$58.92	8.2%
\$65,000	\$72.34	8.8%
\$75,000	\$85.77	9.3%

Of the \$13 billion of tax cuts, over half are paid to the top 20% of tax payers. It is hardly fair or just to argue to defend \$6.8 billion of tax cuts for high income earners by keeping a \$5 billion tax on food, which mostly hurts low income earners. The Democrats believe that the zero-rating of food should be funded by improving the progressivity of the tax system, that is, by paring back part of the tax cuts by high income earners. The funding task for the zero-rating of food ranges from \$4.2 billion (2001-02) for basic groceries, to \$5.2 billion for all groceries to \$7 billion for all food. This could be achieved by a mixture of paring back tax cuts and broadening the tax base by closing loopholes. Any combination of both measures could significantly improve the tax base. For illustrative purposes, we offer 3 tax scales for discussion:

⁸⁵ ANTS, p.178.

Current tax scales

0-5400	0%
5400-20700	20%
20700-38000	34%
38000-50000	43%
50000+	47%

ANTS scales

0 – 6000	0%
6000-20000	17%
20000-50000	30%
50000-75000	40%
75000+	47%

**Tax Scale 1:
(\$5 billion)**

0-6000	0%
6000-20000	17%
20000-35000	30%
35000-47000	36%
47000-60000	43%
60000+	47%

**Tax Scale 2:
(\$4 billion)**

0-6000	
6000-20000	17%
20000-35000	30%
35000-45000	34%
45000-55000	43%
55000+	47%

**Tax Scale 3:
(\$2.5 billion)**

0%	0-6000	0%
	6000-20000	17%
	20000-45000	30%
	45000-55000	43%
	55000+	47%

Table Eleven highlights that zero-rating food, paid for with a progressive tax scale, would improve the progressiveness of the tax system as a whole, delivering larger tax benefits to low income earners, and smaller ones for high income earners.

TABLE ELEVEN: TAX CUTS (including benefit of zero-rating food⁸⁶)**Benefit of tax cuts per week (\$)**

Private Income	ANTS	Tax Scale 1	Tax Scale 2	Tax Scale 3
\$10,000	5.34	7.54	7.54	7.54
\$20,000	10.36	13.35	13.35	13.35
\$30,000	16.15	20.27	20.27	20.27
\$40,000	27.27	25.64	27.56	31.39
\$50,000	52.21	37.14	38.29	45.95
\$60,000	65.63	43.99	43.04	50.70
\$70,000	79.06	41.09	43.96	51.63
\$80,000	85.77	38.16	44.87	52.54
\$90,000	85.77	35.23	45.77	53.44
\$100,000	85.77	32.31	46.68	54.35

In terms of base broadening, a number of measures could be considered. Table Twelve summarises major recent growth in tax sheltered income:

TABLE TWELVE: GROWTH IN TAX SHELTERED INCOME⁸⁷

Item	1991-2	1992-3	1993-4	1994-5	1995-6	Increase 1991-96
Cost of FBT tax break on company cars	n.a.	n.a.	400	800	650#	85%*
Cost of tax break for company super	n.a.	2310	2990	2870	3900	69%
Rental losses claimed	n.a.	n.a.	1872	2345	2840	52%
Dividend imputation credits	1493	1724	2045	2839	3217	115%

⁸⁶ Food effect drawn from NATSEM Option 5B less 3B for a single person.

⁸⁷ ACOSS, "But it is broke", Attachment to Analysis of Labor's Tax Package, 3 September 1998, Taxation Statistics, Tax Expenditures.

Trusts and partnership distributions	13860	15460	16774	18534	19766	43%
Growth in number of private companies	365000	394000	427000	462000	480000	32%
<i>All taxable income</i>	<i>203117</i>	<i>210933</i>	<i>222712</i>	<i>236580</i>	<i>253564</i>	<i>25%</i>

this tax break rose to \$740m in 1996-7

*growth to 1996-7

The revenue funding task for zero-rated food is reduced by the positive macro-economic benefits. The 1.4 per cent CPI reduction would cut outlays by about \$854 million, and the 12,000 increase in employment by \$93 million.⁸⁸

PART VII: OTHER GST ISSUES FOR BUSINESS AND INDUSTRY

Reference 3(f), (g), (i), (m), (o), (p), (s)

The Democrats do not propose to publish detailed recommendations concerning all of the various industries that gave evidence to the Inquiry.

We do note the argument raised in particular by hiring and leasing companies, duty free shops, the insurance industry and in the submission by Arthur Anderson on various industry compliance issues. We believe that these issues require careful consideration by the Treasury, and recommend accordingly. In the short space of time available to us, we have been unable to determine a final position on all the detailed arguments presented. However, we will do so by the time the Committee stage of the bill is under way, and would urge the Government to do likewise

In respect of **financial services**, the Democrats have some sympathy with the argument presented by the Australian Consumers Association that financial services should be taxed as per all other services. We note the arguments that the European Union and New Zealand are currently seeking to develop protocols to deal with this issue, as is the Australian Bankers Association. The Democrats recommend that serious consideration be given to bringing financial services fully into the GST net, effective from the date that FID/Bad taxes are abolished January 1 2001. This would give time for Treasury and the finance industry to determine whether such taxation is viable, and develop appropriate protocols.

If, however, the financial service industries is not brought into the GST net, the Democrats believe that there is a case for providing limited input tax credits to financial institutions that outsource professional functions (i.e. valuation, conveyancing, legal advice, building inspection etc.), and call on the Government to

⁸⁸ Based on Treasury Budgetary Sensitivity Analysis, Budget Paper No. 1 1998-99, pp 2-64.

give consideration to this issue. Failure to do so would in our view reduce the competitiveness of mortgage providers such as Aussie Home Loans, who have been responsible for significant market competitive pressures in recent years.

The Democrats also recognise that credit unions are at a particular disadvantage under the GST because many of their services are provided by a service company owned by the credit unions. The Democrats recommend that the amendments sought by CUSCAL proposing that credit union service organisations be exempted from charging GST to their members be adopted. Limited input tax credits should also be made available to credit unions for financial transactions.

In respect of **tourism**, the Democrats recommend that inbound tourism packages be zero-rated under the GST. This issue has been dealt with in our First Report and by the Employment References Committee.

In respect of **books**, the Democrats recommend that books (including academic journals and professional journals) be zero-rated. This matter has been dealt with in evidence to the Employment Committee.

In respect of **housing**, the Democrats recommend that the First Home Buyers Scheme be scrapped and replaced by a scheme whereby First Home Buyers receive a 100% rebate of the GST paid on a new home (up to \$200,000), other home purchases (including purchases for the purpose of rental) receive a 50% rebate, and upgrading of rental properties receive a 50% rebate on major renovations. This is a variant of the Fair Compensation for Housing Package presented to the Committee by the Housing Industry Association in its supplementary submission⁸⁹ This would cost about \$700-750 million, allowing an additional \$100 million to be allocated to enhance public housing stocks. The HIA gave the Committee modelling from Econtech showing that replacing the First Home Buyers Scheme with a GST rebate scheme (as happens in Canada) would provide a 1.7% boost to housing investment, a long run fall in CPI of 0.7 per cent, a fall in residential housing prices of 4%, a reduction in rents from 3% to 0.3% and a small boost in GDP. It would also save around 7000 jobs.

In respect of **small business**, the Democrats recognise that the compliance costs for small business will be substantially higher in percentage terms than for larger businesses. We have grave doubts whether the \$500 million compensation package will be adequate in terms of start-up costs. We note that the ASCPA has recently published a major paper on reducing compliance costs for small business, making a number of important recommendations⁹⁰. In particular, we note the recommendation of the ASCPA that the compensation pool be allocated primarily to upgrading of record keeping capacity, particularly software and hardware.⁹¹

⁸⁹ Housing Industry Association, Submission No. 592A.

⁹⁰ Angela Ryan and Chris Evans, "Tax Reform Issues for Small Business", ASCPA, April 1999.

⁹¹ Ibid, p.33.

The Democrats are attracted to the idea of allowing a 100% write-off of software and hardware associated with the GST. This could be extended to the not-for-profit sector by means of a 36% rebate. The rebate/write-off might be capped at a maximum of \$4,500 of expenditure. We estimate that such a proposal would cost about \$800 million, about \$300 million more than offered by the Government. However, we would recommend that the Government consult with small business and the not-for-profit sector about the best means of minimising compliance costs in the first year, and that the pool of funds be increased by at least \$200 million to cover the not-for-profit sector adequately.

The ASCPA paper also questions the adequacy of the registration threshold, the \$500,000 threshold for payment basis reporting, the deregistration obligations and invoicing requirements. The Democrats note that the registration threshold (\$50,000) is not particularly generous in comparison with the United Kingdom, and the cash payment threshold of \$500,000 is less than half the level provided in New Zealand. The Government needs to give very careful consideration as to where it sets these thresholds to ensure that compliance costs do not outweigh the revenue collected.

The ASCPA also recommends that consideration be given to allowing small business to retain a small portion of the GST collected. The Democrats recommend that retailers affected by the zero-rating of food, and also sell other goods which are not zero-rated, should be entitled to a GST rebate equal to 0.2% of the value of the zero-rated goods that they sell. This will ensure that retailers are fully compensated, indeed, over-compensated, for the cost of zero-rating of food. This rebate would not apply to large businesses.

PART VII: LOCAL GOVERNMENT

Reference 3(r)

Having reviewed all of the evidence, and the dozens of submissions to the Committee from Local Government, the Democrats make the following recommendations in respect of local government:

- That local government grants should remain a Federal responsibility and be allocated on a fiscal equalisation formula developed between the Commonwealth and the Australian Local Government Association, and as a fixed percentage of income tax collections;
- That the GST should not apply to legislated or regulatory services of local government or to community services not run on a for-profit basis (i.e. provided by council at or below their direct cost); and
- That the Commonwealth should recognise that the GST will impose significant additional costs on local government, and increase local government grants by at least the amount cut in the 1997 Budget (\$15 million a year).

PART IX: STATE-FEDERAL RELATIONS

Reference (r)

The various measures proposed by the Democrats would reduce the GST revenue to the States considerably, by upwards of \$7 billion. This shortfall should be met by re-arranging other Federal/State responsibilities. For example:

- Transferring responsibility for the First Home Buyers Scheme back to the Commonwealth (\$830 million);
- Maintaining local government grants as a Federal responsibility (\$1.3 billion);
- Transferring one or more of the excises back to the States (e.g. tobacco excise \$5 billion); or
- Transferring full funding responsibility for public hospitals to the Commonwealth (approximately \$3 billion)

The objective should remain that the reliance on Federal grants from the Commonwealth, other than specific purpose payments under Commonwealth programs, should be eliminated as far as possible, replaced by direct access to Commonwealth growth taxes.

PART X: EMPLOYMENT OUTCOMES

Reference 3 (h)

The macro-economic effects of the tax package were summarised in the First Report⁹², with the Democrats concluding that the effect of the GST package on employment in the longer run was likely to be neutral, although there would be modest changes in the industry composition of employment and possible some employment gains flowing from the elimination of poverty traps. In the short run, Monash modelling found there would be a 30,000 gain in employment due to the size of the fiscal stimulus from tax cuts. This gain could be increased by reducing the tax mix switch between direct and indirect taxes (e.g. by zero-rating food paid for by income tax).

The Employment References Committee, as part of its brief, looked at employment effects in more detail. The Democrats concluded that it was possible to significantly enhance the employment outcomes from the ANTS package. At minimum to improve its employment effects, we recommended:

- zero-rating food (8-12,000 extra jobs);

⁹² First Report, pp 79-81.

- reducing the cost impost on the housing sector (7000 jobs in the medium term);
- zero-rating inbound tourism packages (3000 jobs in the short-term);
- zero-rating all government payments from Jobs Network to employment providers;
- eliminating more poverty traps, particularly the 70% taper rate on unemployment benefits;
- reducing payroll tax rather than petrol and diesel taxes (30,000 jobs).

Many organisations were critical of the Government failure to reduce payroll tax as part of the tax reform package. These included Australian Business (sub. 870), the Australian Chamber of Commerce and Industry (sub. 864), its state affiliates in Tasmania (sub. 818), Victoria (sub. 122), South Australia (sub.881) and New South Wales (sub. 825), the Australian Conservation Foundation (sub. 932), and the Council of Small Business Organisations (sub. 1368) The Australian Food and Grocery Council, in its submission to the main committee, also called for payroll tax to be abolished, in preference to providing large income tax cuts to the well-paid, or to reducing diesel fuel prices (sub. 340).

The Democrats are very disappointed that the Government chose to reduce petrol and diesel taxes by \$2.5 billion rather than reduce payroll tax. Reducing payroll tax instead of energy taxes would have been a win-win solution for the environment and the economy. What is clear is that, if \$2.5 billion of tax credits were available for abolition of business taxes, halving payroll tax rather than petrol and diesel excises would have been far more efficient on economic grounds. A recent report by the Melbourne Institute highlights the relative ineffectiveness of reducing petrol excises as opposed to other business taxes, particularly payroll tax⁹³. Modelling by the highly respected Centre of Policy Studies at Monash University, using ORANI-E, commissioned by the House of Representatives Environment Committee in 1994 also found strong economic, environmental and employment outcomes from reducing payroll rather than energy taxes. It modelled two options – one raising taxes on carbon emissions by \$2 billion in 1992/3 dollars (about \$3 billion in 2000/01 dollars) and using the revenue to reduce payroll taxes, and another raising taxes on carbon emissions by a rate sufficient to abolish payroll tax completely (\$6.3 billion in 1992/3 dollars). Table Thirteen summarises the results:

⁹³ Melbourne Institute 1998, quoted in Johnson D et al. "Tax Reform: Equity and Efficiency report No 3." Melbourne, July 1998, p.17.

TABLE THIRTEEN: SWAPPING PAYROLL FOR CARBON TAXES

Variable	Reduce Payroll Tax by \$2 billion (%)	Abolish payroll tax completely (%)
GDP	0.15	0.2
CPI	-0.47	-0.57
Budget balance (% of GDP)	0.03	-0.14
Employment	0.33	0.69
Carbon dioxide emissions	-4.6	-11.7

(Source: Centre of Policy Studies cited in House of Representatives Standing Committee on Environment, Recreation and the Arts "Working with the Environment" Opportunities for Job Growth" November 1994 p 33)

What this shows is that a tax swap between payroll and fuel taxes roughly of the order in ANTS would increase GDP, cut inflation by half a percent, increase employment by around 30,000 jobs and reduce greenhouse gas emissions by 4.6 per cent. A complete abolition of payroll tax, funded by carbon taxes, would generate 60,000 extra jobs and cut greenhouse gas emissions by around 11.7 per cent. In short, on economic and environment grounds, there are very strong reasons to argue that reducing payroll tax should have been given higher priority over reducing taxes on fossil fuels like petrol.

PART XI: CONCLUDING COMMENTS

The Democrats, at the end of this long and arduous Inquiry, wish to acknowledge the efforts of the 1429 people and organisations who made submissions to the Inquiry. An enormous amount of time and effort has gone into the submissions, creating a small boom industry for economic modellers and tax consultants. The enormous public response highlights the seriousness that the public at large has attached to this Inquiry and the Senate's review of the Tax system.

I also wish to acknowledge the support provided to me throughout this Inquiry by the Democrats economic policy researcher John Cherry, and the assistance provided by other staff members Jennifer Doggett, Lee Jones and Susan Brown on the References Committee reports.

My final message is this – at the 1998 Federal Election, the Howard Government won just 48.7 per cent of the vote in the House of Representatives. It won just 37 per cent of the vote in the Senate, the worst Senate vote for the Coalition in at least sixty years. This cannot be interpreted as popular support for the GST, for a mandate for an unamended, unfair tax system. Polls show that the majority of people are yet to be convinced of the merits of the GST, and that the majority are opposed to taxes on food.

The Democrats are prepared to support a fair tax system. But, the tax package that John Howard rushed to an election with fails the test of fairness. It can be made fair, but it is not fair as it stands. We are prepared to negotiate, to look at the arguments, to work with the Government for a shared goal of a new, better, fairer, more robust tax system.

Our door is open.

RECOMMENDATIONS

1.1 The Democrats recommend that the ANTS package as it stands not be passed by the Senate unless it is substantially altered to improve its fairness, and to reduce negative effects on the environment and employment.

1.2 The Democrats conclude that analysis of the impact of the GST should look at the range of estimates, treating ANTS (Option 3B) as the most optimistic second year effect, Option 4 as a pessimistic (but quite realistic) first year effect, and note that both options understate the impact on low income earners by about 50% because they fail to take into account income levels.

1.3 The Democrats conclude that upwards of 4.9 million people are likely to be losers from the GST under the compensation plan proposed by the Government.

1.4 The Democrats conclude therefore that a fully effective compensation route, to pick up all possible losers, is too costly, too complicated, too politically uncertain and too dubious to follow.

1.5 The Democrats conclude that zero-rating food is a fairer way to improve the tax system than seeking to compensate the 4.9 million people left at risk by the price impact of a GST. Zero-rating food makes sense because it will:

- Reduce the regressivity of the GST and add to the progressivity of the tax system as a whole if paid for by cutting income tax cuts for the well off;
- Reduce the inflationary effect of the GST considerably from 1.9% to just 0.5%, thereby reducing pressure on wages growth and the need for social security compensation;
- Eliminates the negative effect of the GST on rural industries, and the risk of 10,600 job losses in food and agricultural industries;
- Will assist in improving the nutritional habits of Australians by providing large price cuts for fresh fruit and produce relative to junk food;
- Will assist employment by 8-12,000 jobs in the short term by reducing the tax mix switch;
- Is more cost effective than compensating low income earners, because it is cheaper to pay \$100 million to 40,000 affected retailers than up to \$6

billion of compensation to the 4.9 million affected Australians at risk due to a GST.

1.6 The Democrats believe that the income tax cuts are unfair and should be recast to make the scales more progressive as a means of paying for the zero-rating of food. The income tax base should also be broadened by closing loopholes.

1.7 The Democrats recommend that consideration be given to imposing the GST on financial services, or, as a transitional measure, providing limited input credits for outsourced professional services and to credit unions for specific financial services.

1.8 The Democrats support zero-rating inbound tourism packages as an export product.

1.9 The Democrats support zero-rating books as an item essential to education and personal development, including professional and academic journals.

1.10 The Democrats recommend that the First Home Buyers Scheme be replaced by a GST rebate scheme, providing partial rebates for purchases of residential properties up to \$200,000 and full rebates for first home buyers buying a new home.

1.11 The Democrats recommend that the Government consult with small business and the not-for-profit sector about the best means of minimising compliance costs in the first year, and that the pool of funds be increased by at least \$200 million to cover the not-for-profit sector adequately. Further, that priority in dispersing the funds be given to upgrading records keeping systems (eg. hardware and software).

1.12 The Democrats recommend that small retailers affected by the zero-rating of food and selling of GST-liable groceries be eligible for a rebate of 0.2 per cent of the value of the GST-free sales to reduce their compliance costs.

1.13 Democrats recommend that local government grants should remain a Federal responsibility, that the GST should not apply to legislated and regulatory services of local government or to community services not run on a for-profit basis (i.e. provided by council at or below their direct cost), and the Commonwealth increase local government grants by at least \$15 million in recognition of the cost of compliance.

Senator Andrew Murray

Democrat Committee Member

ATTACHMENT**OTHER DEMOCRAT RECOMMENDATIONS FROM
REFERENCES COMMITTEES**Environment, Communications, Information Technology and Arts References Committee:

1. Petrol and diesel continue to be taxed through the excise system rather than the GST.

In other words, that petrol and diesel be zero rated under the GST but excises be held such that the price at the point of sale is not reduced. Resulting savings be allocated to measures to reduce business costs and to promote fuel efficiency and regional transport.

2. An additional sales tax be applied on new motor vehicles with low fuel efficiency, based on a sliding scale.

This would be applied in addition to the proposed sales tax on luxury cars.

3. The current Diesel Fuel Rebate Scheme be retained but modified:

- The existing 100 per cent diesel rebate for all agricultural and other fully rebateable off-road use be maintained.
- The total amount of the rebate for other off-road uses be capped at 1999/2000 levels and provided at a flat pro-rata amount for all off-road use.
- \$1 billion of additional assistance be provided to reduce the cost of regional transport, as follows:
 - a) Rail transport to receive a 100 per cent rebate as it too is an off-road use,
 - b) A regional transport rebate to be more tightly targeted to heavy road transport, with the weight threshold increased from the proposed 3.5 tonnes to 20 tonnes,

Companies with the above eligibility would receive a better rebate if using cleaner or renewable fuels, with incentives such as a sliding scale of rebates based on greater use of gas and ultra-low sulphur diesel.

4. Public transport be zero-rated under the GST.
5. The current exemption from excise be maintained for compressed natural gas (CNG) and liquid petroleum gas (LPG).
6. Grants be provided of up to 50 per cent of the cost of converting heavy vehicles to gas use and for the additional capital cost of new gas vehicles, giving priority to public transport vehicles.

7. More advantageous depreciation rates and/or tax deductibility rates for the use of CNG and LPG.
8. Purchases of equipment to utilise renewable energy be exempt from GST or zero-rated. Further measures to advantage and encourage purchase of energy efficiency equipment also be considered.
9. A levy be introduced on the sale of lubricating oil to fund re-refining and collection infrastructure.
10. The current exemption from excise of recycled lubricating oil be maintained.
11. The tightening of emission standards for vehicles be accelerated so that Australian's requirements match European standards by 2002.
12. Tax rebates be introduced for the purchase of renewable energy equipment and for expenditure to improve energy efficiency.
13. A higher diesel excise be imposed on fuel with a high sulphur content (more than .005 per cent) as a means of encouraging the use of cleaner fuel.
14. Government grants to arts and cultural organisations be clearly GST-free.
15. The GST treatment of sponsorships be re-considered to exclude sponsorship that does not bring with it pecuniary or advertising benefits to the sponsor (in line with Canada).
16. Arts organisations be given favourable consideration in the allocation of funding from the compliance compensation pool.
17. The higher \$100,000 registration threshold for charities for the GST be extended to individuals, organisations and businesses in the arts industry and in community broadcasting.
18. There be a further review of arts funding within 12 months of implementation/proclamation.
19. The health exemption be extended to include telecommunications equipment for the hearing impaired.

Community Affairs References Committee Report:

1. The Democrats recommend that all products approved by the Government as therapeutic goods should be GST-free.
2. The Democrats recommend that all services provided by recognised complementary medicine practitioners, and complementary medicine approved for sale in Australia as a therapeutic good, should be GST-free.

3. The Democrats recommend that the Government consider exempting specific products from the GST where there is a demonstrable public health benefit.
4. The Democrats recommend that food be exempted from the GST as a failure to do so could exacerbate poor nutrition in low income groups.
5. The Democrats recommend that the GST should be structured to minimise the need for compensation as compensation tends to miss many needs groups and be eroded or eliminated over time.
6. The Democrats conclude that the Government has failed to fully or adequately compensate low income earners and particularly groups with special needs for the impact of the GST.
7. The Democrats recommend that consumer groups be included in the formal price monitoring arrangements for the GST, assisted by the re-instatement of Federal grants.
8. The Democrats believe that the GST should include private health insurance to bring it in line with other insurance products.
9. The Democrats recommend that the zero-rating for the activities of charities apply to all activities of charities, other than those that are clearly defined by law to be commercial. Where a not-for-profit organisation is exempt for income tax but not eligible for GST zero-rating, the option should be provided of being GST –exempt for all of their activities other than those that are clearly commercial
10. The Democrats recommend that the following activities of charities clearly be defined as being not-commercial:
 - Membership fees (provided less than 30% is to access facilities and activities);
 - Fundraising (other than the regular supply of goods and services at more than their direct cost);
 - Hire of facilities and associated catering;
 - Advertising in charitable publications;
 - Sponsorships not providing actual goods or services;
 - Gambling (e.g. raffles, bingo) other than those activities which directly compete against the private sector (e.g. poker machines);
 - Fees for recreational programs for under 14 year olds;
 - Life saving and first aid;
 - All purchases by libraries run on a not-for-profit basis;

- Tuckshops;
 - Provision of housing or other services at not more than its direct cost.
11. The Democrats recommend that the proposed \$17,000 cap on FBT concessions be replaced with a cap of 30% of remuneration.
 12. The Democrats recommend that an additional \$200 million be set aside to assist charities and not-for-profit organisations to implement the GST, and that an ongoing rebate of GST payable (e.g. 50%) be implemented as in Canada to help assist with compliance costs.
 13. The Democrats recommend that the adverse impact on the housing sector of the GST be expressly addressed by:
 - Converting the first home buyers scheme into a targeted GST rebate scheme on new residential and rental homes to reduce the up-front cost;
 - Increasing funding to the Commonwealth-state Housing Agreement and Supported Accommodation Assistance Program to offset higher costs of the GST;
 - Options be developed to reduce the adverse impact of the GST on homeless people;
 - The GST treatment of boarding houses and caravans be properly clarified where these are places of normal residence;
 - Compensation through rent assistance be carefully calculated to ensure that low income renters are fully compensated for rent increases.

Employment, Workplace Relations, Small Business and Education References Committee:

1. Unless the revenue base is repaired, then the education will continue to be under funded and liable to more budget cuts. For that reason, the Democrats support sensible measures which will result in broadening of the direct and indirect tax systems and securing a funding base, although the introduction of a GST is not necessarily the way to achieve this end.
2. The Democrats recommend that educational institutions, whether they be private or public, should be zero-rated on an institutional basis. GST should only be payable by these institutions on non-educational activities which are clearly 'commercial'.
3. Institutions which do not qualify for an institutional exemption should still be able to claim the GST paid on a transactional basis as they would if the proposed regime was implemented.
4. The Democrats recommend that not-for-profit parents and teachers organisations should not be taxed on their activities.

5. The Democrats recommend that adult and community education courses not of a recreational nature be GST-free. To qualify for GST-free status, the course must be:
6. Provided by a not-for-profit community owned and managed organisation; or a registered training organisation which is:
 - recognised by a State or Territory Education and Training authority as an approved provider of ACE; and
 - contributes to the National Statistical Collection (AVETMISS);
 - the content of which must be likely to add to the skills of the person in a current or future employment situation, rather than be recreational.
7. The Democrats recommend that at least \$200million be set aside separately for not-for-profit organisations (including educational institutions) to deal with the costs of implementing the ANTS system
8. The Democrats conclude that the benefits of the package could be lost if wages move with the CPI movement. While wages are moving more with productivity rather than CPI, workers' perceptions about the compensation package could inflate wage demands. To that extent, the substantial reduction in the CPI if food is excluded would help reduce potential wage pressure.
9. The Democrat believe that adopting a partial GST rebate scheme for housing as proposed by the HIA could save up to 8000 building jobs in the longer-run.
10. The Democrats believe that zero-rating inbound tourism packages could save up to 3000 jobs based on Monash modelling.
11. .The Democrats believe that all government grants should be GST-free, and the contracting out of employment services fits into this category.
12. The Democrats recommend that the maximum taper rate for unemployment benefits be reduced from 70% to 50%., thereby reducing poverty traps and improving employment outcomes.
13. The Democrats conclude that reducing payroll taxes rather than petrol and fuel taxes would have a far more positive impact on the economy, as well as avoiding the environmental and health problems associated with increased fuel usage. This measure would also increase employment by about 30,000 jobs and reduce greenhouse gas emissions.