

## **WACOSS Comments on State Taxation Review Issues Papers – February 2006**

### Overview

WACOSS provides the following comments regarding the Issues Papers circulated to State Taxation Review Reference Group members on 27 January 2006 by email.

WACOSS has made written submissions and verbal presentations regarding our perspective on taxation reform since the commencement of the review. The comments contained within this document should be read in the context of our previous comments and our position remains unchanged.

Amongst the groups participating in the State Taxation Review, WACOSS represents a minority perspective. The majority of participants are industry bodies concerned with improving profitability within their market. We anticipate that throughout the review process, WACOSS will continue to be in the dissenting minority.

A key concern for us in assessing these proposals is their impact on disadvantaged groups in our community. Tax reform which further disadvantages low income earners is regressive. Groups such as people with disabilities, low income earners, and other people struggling in poverty, rely heavily on services largely provided by the State Government through tax revenue. If tax revenue is reduced these groups may suffer reduced services and increased marginalisation. A reliable and valid social sustainability assessment is critical.

### Issues Paper 3: Tax Relief / Reform for the Disadvantaged

WACOSS does not support the preliminary findings regarding broadly based tax relief and the exclusion of social service expenditure issues.

#### **Definition of Disadvantage**

WACOSS believes a more robust definition of “disadvantaged” would be appropriate. WACOSS has recently developed a definition of hardship for use in the Utility industry. A copy of this document is attached.

#### **Interpretation of Equity**

WACOSS is concerned about the interpretation of “equity” in the statement “...*there is a question mark as to what priority should be given to further assistance to disadvantaged people through the State tax system as part of this review, versus broader relief that would benefit all taxpayers (including the disadvantaged), from an equity perspective.*”

In the first instance, ‘Equity’ is not achieved through providing a blanket approach or treating all citizens in the same manner. Equity is an outcome that is achieved through ensuring people are treated fairly, and to achieve this outcome it is often necessary to treat people differently. The State Government recognised that sameness of treatment is not equated to fairness of treatment when it adopted as government policy the substantive equality policy framework in 2004<sup>1</sup>

---

<sup>1</sup>Equal Opportunity Commission, <http://www.equalopportunity.wa.gov.au/seu.html> downloaded 3/2/06

Secondly, the statement postures that broader relief would benefit all taxpayers including the disadvantaged, this is simply untrue, for example abolition of stamp duty on mortgage duty does not assist low-income people unable to afford home ownership. Unless tax reform is targeted to improve equity for disadvantaged members of the community it is unlikely the 'advantages' of tax reform will be felt by these groups in the community.

WACOSS recommends that a clearer shared definition of "equity" be developed for the purposes of this review.

### **State tax effectiveness in delivering assistance to the disadvantaged**

WACOSS refutes the assertion that *"State taxes are likely to be too small and 'spasmodic' in their application for exemptions and concessions to be able to deliver effective and equitable assistance to the disadvantaged..."*

WACOSS believes that there is significant benefit that can be achieved through improved concessions for disadvantaged people. For example, whilst seniors with Pensioner Concession Cards are currently eligible for concessions on water, sole parents, with arguably less income and greater requirements are not provided with this concession. Significant benefit would accrue to low-income sole parents through the extension of this concession.

A balance of targeted taxation changes, concessions and services is the best method of addressing disadvantage in WA. It is not simply a case of arguing that issues are better addressed through social service expenditure and then stating that social service expenditure is outside the scope of this review.

### **Concessions competitiveness with other States**

We do not have access to the reference material used to conclude that: *"In terms of competitiveness, it is understood that other States are similar to WA in providing, relatively few concessions through the State system...and that Western Australia's utility charges and other social concessions for seniors are among the most generous in the nation."*

Significant work is required to investigate the concessions provided in Western Australia. WACOSS has been calling for this review for a number of years. This call has been echoed by a number of other bodies, including most recently, the Economic Regulation Authority in its *Final Report on Urban Water Pricing*

### **Expenditure on Social Services**

WACOSS does not support the preliminary finding that *"the issue of what priority should be given to general State tax relief versus increased expenditure on State social services is considered to be outside the scope of the Review."*

The State Tax Review Terms of Reference clearly state: *"...tax relief to the Western Australian community within the constraints of the community's demand for services and infrastructure and the requirement for sound financial management."*

The need for social services in Western Australia and the under-funding of existing services is well-evidenced. WACOSS has been told by Government for many years that increased investment will only be made at the point in time where there is sufficient revenue. When Government has had consistent surplus we have been told to be measured in our requests due to the need to plan for the out years and the potential for less favourable. Now we face the confounding situation of revenue being given away in the face of unprecedented demand for social services.

Cutting taxes will lead to a reduction in revenue available for investment today and in the future. Consistently Governments that have engaged in the “tax relief” agenda leave a legacy for themselves or for future Governments that will require funding cuts. This is the legitimate fear of WACOSS and the community sector in WA. Not only will we not have enough for today, but we will be the first to bear the burden of cuts in the future.

## Issues Paper: GST Agreement Taxes (incorporates Issues Papers 21 & 22)

### **Community Support**

WACOSS refutes the claim that cutting of a number of the IGA taxes “*appears to have significant community support*”. Tax cuts are generally supported by corporations and industry groups likely to increase their profits as an end result. These interests are strongly represented through mainstream media and in the political discourse.

There is significant research that indicates that the public of Western Australia, when faced with the option of improved services versus tax cuts, prefers investment in services and infrastructure.

It would be more accurate to state that cutting the IGA taxes “*appears to have significant industry support*”.

## Issues Paper 6: Tax Incentives and Rewards for Environmental Purposes

### **Social Sustainability consideration**

Social Sustainability should be considered of equal importance to environmental sustainability. Accordingly the same questions regarding tax incentives should be asked with regard to social outcomes e.g. tax incentives for developers of affordable housing.

### **Incentive rather than punitive**

It is important to ensure that taxing for environmental purposes does not disproportionately impact negatively on low income earners.

Tax concessions currently provided for “environmentally friendly” behaviour have no real impact on low income people whilst usually providing a benefit for middle or high income households i.e. rebatable products cost more than standard products currently. The proposed solution here is to provide more significant concessions for more affordable options. This is an incentive-based approach that is well-targeted.

It is essential that taxes on “environmentally unfriendly” behaviour do not disproportionately impact upon people who are unable to afford to make any other feasible choice. This is a punitive approach that is not well targeted and creates further inequity.

## Issues Paper 1: Indexation of Tax Thresholds

WACOSS believes that where clear redistributive social benefits can be achieved there may be a strong case for increasing concessions. Clearly, many of the benefits

of the stamp duty concession for first home buyers have been eroded over a relatively short period due to the large increases in house prices. However, this particular concession may have an inflationary effect on the market and further changes require careful consideration.

WACOSS believes that specific modelling, that includes reference to social and environmental considerations should be undertaken regarding this issue. We require more information of this type before we can provide further input on this matter.