

Western Australian Council of Social Service

State Tax Review

Submission
September 2005

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Western Australian Council of Social Service

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Western Australian Council of Social Service

The Western Australian Council of Social Service Incorporated (WACOSS) is the peak body of the community service sector across Western Australia. Since 1956, WACOSS has been developing and strengthening the non-government community services sector's capacity to assist all Western Australians. With over 350 members, WACOSS has strong relationships with the social services sector and seeks to represent their interests, and those of the disadvantaged individuals and families they assist at a service level. Given this relationship, WACOSS is in a unique position to comment on issues in our society that socially impact upon disadvantaged members of the community.

Terms of Reference

Purpose and Objectives of the Review

The purpose of the State Tax Review is to make recommendations on reform of the State tax system for the next five years, in consultation with and reflecting the priorities of the Western Australian community.

The over-arching objectives of the Review are to enhance the competitiveness, equity, and efficiency of the State tax system in Western Australia, including minimising distortions to economic activity and compliance costs for taxpayers.

The Review will not be restricted to a revenue-neutral outcome, but aim to provide genuine, aggregate tax relief to the Western Australian community within the constraints of the community's demand for services and infrastructure and the requirement for responsible financial management (further discussed below).

Scope of the Review

The Review will be broad in scope. It will cover all State taxes affecting all sectors of the community. It will not cover the GST, which is a Commonwealth tax, nor mining royalties or user charges such as for electricity and water.

While not extending to Commonwealth taxes, local government rates or user-charges, the Review will recognise that the State tax system operates in the context of this wider system of taxes and charges, together with Australia's social welfare system, and requires various interactions to be taken into account.

The Review will incorporate the Government's commitment to a re-write of the *Stamp Act 1921*. While the main objective of the re-write is to modernise the Act to reflect current business practices, and to simplify it through restructuring and the use of plain language, policy proposals need to be addressed first.

Affordability and Funding of Tax Relief

A target amount of State tax relief has not yet been identified. States taxes are a key source of funding for State services and infrastructure, including in relation to health, education and law and order, and the provision of tax relief will need to be balanced against meeting community expectation in these areas.

Consistency with the Government's fiscal targets will also be crucial, including maintaining the State's AAA credit rating. Funding would be sourced from any sustainable improvement in the State's revenue outlook or a re-balancing of expenditure and revenue priorities, including as part of the 2006-07 State budget.

Submissions should explicitly address how the proposed reform/s will assist in meeting one or more of the following objectives of the Review.

Enhancing competitiveness: the State's taxes should be competitive with other States and internationally. While differences in tax rates or bases are one indicator, discernible impacts on the attraction of business activity to the State or incentives for avoidance should be demonstrable.

Enhancing equity: the State's taxes should treat people or businesses in similar circumstances in a similar manner, and tax burdens should have regard for ability to pay.

Enhancing efficiency: distortions to economic activity and business decisions from the State's taxes should be kept to a minimum, as should diversion of resources to enforcement and compliance effort (including by businesses that operate across State boundaries).

Enhancing other objectives: for example, consistent with the preceding objectives, the State's tax system should be as simple as possible, and robust vis a vis changes in markets, industry structures and economic conditions (in order to ensure funding is available in the long run for funding services etc).

Having regard for these objectives and any other factors, views would be welcomed on what the State's priorities should be for further tax relief. More generally, multiple reform proposals should include a priority ranking.

Where not already addressed, authors of submissions may wish to state explicitly what their aspirations for the Review are, or what they would see as the critical indicators of success for the Review.

Executive Summary

WACOSS welcomes to opportunity to contribute to the State Tax Review. Taxation is important to West Australians; businesses and individuals. Taxation not only provides a vital funding source for Government, but taxation is also a mechanism Governments can use to influence the social and economic development of the state. Taxation equates for 28% of state revenue (2004/05) with GST revenue equating for an additional 27%

Taxation revenue is used to provide essential services to the community such as education, health, public safety and law and order. The need for adequate and well funded services and infrastructure can not be denied however WACOSS, in common with other peak non-government organisations, has consistently argued that the level of community services and infrastructure provision is inadequate both now and to meet future needs.

Introduction

WACOSS believes that a number of principles should be applied to ensure Western Australia is considered to have a good state tax system. A good state tax system should:

- Raise adequate revenue to fund an acceptable level of services and infrastructure;
- Neither impose undue compliance costs on taxpayers, nor administrative costs on government;
- Utilise tax bases that minimise the scope for tax evasion;
- Achieve both horizontal and vertical equity;
- Be progressive – i.e. the burden of taxation should fall upon those most able to bear it;
- Be transparent enough in aim, objective and operation for most citizens to understand;
- Include concessions and benefits to enable people on low incomes to participate fully in society;
- Support broader policy objectives including the alleviation of poverty; achievement of sustainability goals and environmental protection, reduction of the use of harmful substances (including tobacco and alcohol), encouraging regional development, and the attainment of social justice and social cohesion;
- Avoid entering into a mutually destructive “bidding war” with other states to reduce taxation or provide incentives to business.
- Consider the overall impact of State, Commonwealth and Local Government taxation, fees, charges and penalties, concessions and benefits on individuals and groups within the State.
- Be stable and predictable enough for individuals, businesses and government to make long term plans for their financial future.

It is also important that taxation policy is considered within a broader vision. Low income individuals and families, people with disabilities, low income seniors and many Aboriginal people are unable to participate fully in society at present. Homelessness remains a problem and poverty is a fact of life for an increasing number of West Australians. Unemployment rates for young people remain unacceptably high. There are insufficient childcare places to meet demand and parents who want to work are unable to do so.

Community service organisations are struggling to meet needs of the poor despite the growing affluence of society as a whole. Already, the opportunity cost of the package of reforms from the 2003 Review of State Business Taxes is estimated to reduce tax revenue by: \$3.2 million in 2003-04; \$22.6 million in 2004-05; \$23.4 million in 2005-06; and \$23.8 million in 2006-07. The Government needs to ensure vital services and infrastructure are adequately funded to meet the needs of the whole community.

Scope of the Review

ENHANCING COMPETITIVENESS

What is competitive?

Tax competitiveness may mean different things to different people. In trying to define competitiveness, we note the 1993 Hilmer report, albeit commissioned as part of the National Competition Policy processes not directly taxation related, made the following comment about competition policies:

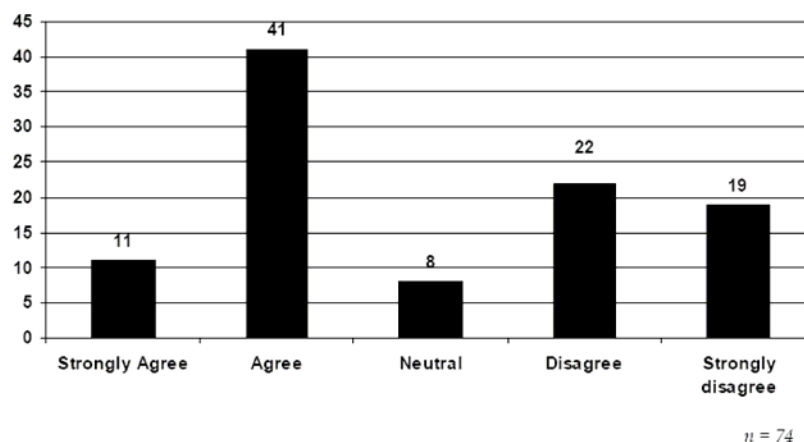
“Competition policy is not about the pursuit of competition for its own sake. Rather it seeks to facilitate effective competition in the interests of economic efficiency while accommodating situations where competition does not achieve economic efficiency or conflicts with other social objectives.”

WACOSS believes that the competitiveness of Western Australia’s taxation system needs to be viewed in a similar light; pursuing tax competitiveness for its own sake will not advance the interests of West Australians, in fact we may find ourselves in a race to the bottom with our competitors. If taxation revenue is reduced for the sake of competition then the state may reduce spending on necessary infrastructure and services.

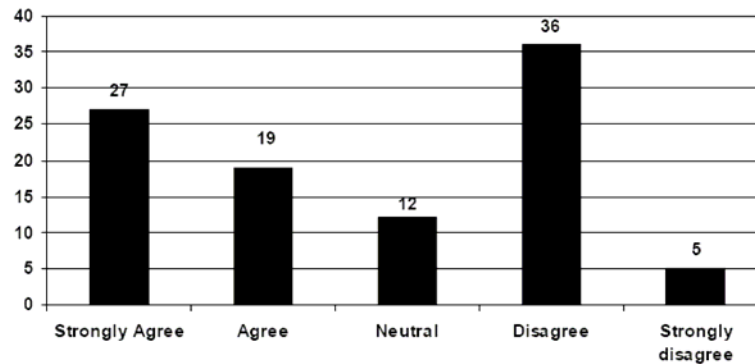
WACOSS would argue that the West Australian taxation system is currently very competitive with other states and competition should not be pursued for its own sake. There are other measures of competitiveness, such as adequate services and infrastructure with that require attention to ensure Western Australia remains a strong and vibrant state.

Using the community services sector as an example of services within Western Australia that could benefit from additional government funding, the Community Services Sector Survey undertaken in 2004 outlined both the inability to meet demand and the income for services being inadequate in meeting costs.

Graph 1: West Australia, percentage that agree with the statement:
“This year we met demand for our services within our existing capacity”



Graph 5: West Australia, percentage that agree with the statement:
"Income for our service has not met our costs"



n= 73

Who are we competing against?

Before we can determine whether Western Australia does or does not have a competitive tax system, we must first establish who Western Australia should be in tax competition against.

If we assume that for business, tax competitiveness refers to paying no more tax than you would have if you located your investment in an otherwise comparable location, determining a comparable location on an international scale is difficult because taxes are also imposed by the Federal Government.

However, if we consider one example of Australian state based taxes in comparison to other countries, Australian payroll tax rates are low—the maximum is 6.5 per cent and because of large-scale exemptions, less than 10 per cent of businesses pay the tax. According to the ABS, the average effective rate of payroll tax in Australia was 2.9 per cent of labour costs in 2002–03, down from 3.4 per cent in 1993–94 .

By contrast, European countries characteristically impose very high rates of payroll tax, often in excess of 20 per cent, and with few exemptions. In the US, government (state and Federal) payroll tax averages around 18 per cent, again with few exemptions.

How do we measure competitiveness?

If tax competitiveness is framed in terms of competition with other states of Australia, there are a number of ways in which tax comparisons can be measured; taxation per head of resident population, taxation revenue as a share of Gross State Product; and taxation totals levied on businesses.

The Australia Bureau of Statistics report: *Taxation Revenue, Australia 1998-99 to 2003-04* outlines the amount of taxation per head of resident population, by jurisdiction. Western Australian taxation per capita in 2003-04 was higher than the national average, and was the second highest level of taxation in Australia.

TAXATION PER CAPITA(a)

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
	\$	\$	\$	\$	\$	\$
Level of Government						
State and Local						
New South Wales	2 530	2 676	2 374	2 338	2 476	2 597
Victoria	2 270	2 379	2 123	2 176	2 285	2 455
Queensland	1 683	1 760	1 529	1 671	1 864	2 128
South Australia	1 952	2 144	1 818	1 836	2 018	2 278
Western Australia	2 097	2 174	1 886	1 908	2 139	2 503
Tasmania	1 711	1 781	1 508	1 475	1 558	1 698
Northern Territory	1 989	2 013	1 307	1 392	1 497	1 596
Australian Capital Territory	2 013	2 201	2 014	1 808	2 120	2 329
Average	2 186	2 305	2 025	2 052	2 206	2 402
Commonwealth Government	7 498	8 028	9 091	9 088	9 844	10 462
All levels of government	9 664	10 314	11 098	11 119	12 029	12 841

(a) Estimated Residential Population data used in this table is sourced from Australian Demographic Statistics (ABS cat. no 3101.0). Details of the calculations are in paragraphs 13 and 14 of the Explanatory Notes section.

However, taxation per capita may not be the most appropriate measure of competitiveness as it is not relative to the economic activity of the state. Other economic indicators, such as employment rates can affect the per capita data; that is, when Western Australia experiences strong economic growth per capita the taxation per capita also rises.

A report by the International Tax and Treaties Division of Australian Treasury identifies the ratio of tax revenue collected to Gross Domestic Product (or Gross State Product depending on jurisdiction) as another measure which is often used to consider tax trends and international tax competitiveness. Many states are now using this as the preferred measure of tax competitiveness as this measure relates the level of taxation revenue to economic capacity. In 2005, the West Australian Government released a fact sheet during the 2005-06 budget announcements which detailed the taxation revenue as a share of Gross State Product.

TAX COMPETITIVENESS

Taxation Revenue as a share of GSP

	2004-05	2005-06	2006-07	2007-08	2008-09
	%	%	%	%	%
New South Wales	5.1	5.0	5.0	5.0	5.0
Victoria	4.7	4.4	4.3	4.2	4.1
Queensland	4.4	4.0	4.0	3.8	3.7
South Australia	5.0	4.7	4.6	4.5	4.4
Western Australia	4.2	3.9	3.8	3.8	3.7
Tasmania	4.5	4.2	4.1	4.1	4.0
States' Weighted Average^(a)	4.8	4.6	4.6	4.5	4.4

(a) Excluding Western Australia. Weighted by GSP.

In both 2004 -05 and 2005-06 Western Australia had the lowest taxation revenue as a share of GSP. This suggests that Western Australia's taxes could be increased without reducing the state's competitiveness.

Other data which can be used to assess the competitiveness of state taxation is the dollar value cost for a business. Within this comparison, Western Australia has the lowest level of business taxation of all Australian States.

Tax Comparison

Recurrent taxes for a business with 50 staff from 1 July 2006

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	\$	\$	\$	\$	\$	\$	\$	\$
Payroll tax (on wages of \$2.5M pa)	114 000	102 375	104 500	96 250	109 780	90 890	85 625	77 500
Land tax (CBD premises, passed on by landlord)	23 200	31 730	14 465	9 323	3 635	11 993	15 825	0
Insurance stamp duty (on \$52 500 premium)	2 625	5 250	3 938	5 250	5 775	4 200	5 250	5 250
Workers comp stamp duty (on \$65 625 premium)	0	0	3 281	0	0	0	0	0
HIH levy (on \$65 625 premium)	65	0	0	656	0	2 625	0	0
Motor vehicle rego* (on 12 car fleet and includes MACA equivalent)	8 271	6 720	8 103	6 052	8 136	6 525	9 526	7 037
Fire services levy (estimate)	13 650	17 325	1 006	735	693	14 700	0	0
Bank account taxes	0	0	0	0	0	0	0	0
Total from 1 July 2006	161 811	163 400	135 293	118 266	128 019	130 933	116 226	89 787

Note: *MVR data is current as at 11/03/2005

Recurrent taxes for a business with 100 staff from 1 July 2006

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	\$	\$	\$	\$	\$	\$	\$	\$
Payroll tax (on wages of \$5.0M pa)	264 000	233 625	237 500	233 750	247 280	243 390	256 875	232 500
Land tax (CBD premises, passed on by landlord)	25 600	49 115	18 000	13 461	10 905	13 996	16 413	0
Insurance stamp duty (on \$66 000 premium)	3 300	6 600	4 950	6 600	7 260	5 280	6 600	6 600
Workers comp stamp duty (on \$131 250 premium)	0	0	6 563	0	0	0	0	0
HIH levy (on \$131 250 premium)	65	0	0	1 313	0	5 250	0	0
Motor vehicle rego* (on 25 car fleet and includes MACA equivalent)	17 232	14 000	16 881	12 609	16 950	13 594	19 846	14 660
Fire services levy (estimate)	17 160	21 780	1 803	1 470	1 336	18 480	0	0
Bank account taxes	0	0	0	0	0	0	0	0
Total from 1 July 2006	327 357	325 120	285 697	269 203	283 731	299 990	299 734	253 760

Note: *MVR data is current as at 11/03/2005

Higher employment and investment in jobs?

Payroll tax competitiveness is often defined in terms of employment and investment in jobs. That is, higher rates of payroll tax inhibit employment and therefore payroll tax cuts will generate employment. This is an

assumption that as yet, can not be proved as there has not been enough variation in payroll tax rates to provide such situations it is not necessarily the case that a direct and intrinsic reaction is generated from payroll tax cuts. There are two alternative views; that business pass costs on to consumers or reduce costs via reduced wages. In addition, general measures to increase employment across the board do not reduce unemployment as effectively as measures targeted on unemployment reduction.

Western Australia currently has the lowest unemployment rate in the country and the highest participation rate in the country (data attached). Even assuming payroll tax is an employment incentive, it is unclear whether this tool would be necessary with such high employment rates; and what the opportunity cost of such tax reduction would be. In addition, perhaps reducing payroll tax would be effective if Western Australia was alone in applying this sweetener to business; however any cuts could be matched by other states concerned about losing employment to Western Australia.

The Australia Bureau of Statistics report: *Taxation Revenue, Australia 1998-99 to 2003-04* outlines the total amount of taxation collected from payroll taxes, by jurisdiction 2003-04

	NSW	Vic.	Qld	SA	WA	Tas.	NT	ACT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
.....									
Taxes on employers payroll and labour force									
Employers payroll taxes	4 358	2 714	1 479	714	1 139	167	91	177	10 839

Western Australia’s payroll tax collection is competitive with other states, and this was prior to amendments which would have resulted in further advantages for West Australian businesses, including a .5% rate reduction from 1 January 2005.

In addition, Land tax is already competitive as Identified by the Treasurer:

“A comparison of land tax liabilities at selected property values across states and territories indicates that Western Australia should have a highly competitive land tax regime...”ⁱⁱ

Comparative Land Tax scales as at July 1 2005ⁱⁱⁱ

	WA	NSW	VIC	QLD	SA	TAS	ACT	NT
Minimum threshold (\$'000)	130	-	200	170	100	25		Not levied
Maximum threshold	5000	500	2700	1500	1000	750	225	
Minimum tax rate	0.15%	0.40%	0.20%	0.20%	0.30%	0.55%	1.00%	
Maximum tax rate	2.5%	1.4%	3.5%	1.8%	3.7%	2.5%	1.7%	

ENHANCING EQUITY

The principle of equity is that those most able to pay tax do so and those in most need of concessions receive them.

Vertical equity refers to fairness between groups, while **horizontal equity** refers to that within or across a group. Vertical equity is particularly relevant to the many state taxes that are levied at flat rates, such as motor vehicle registration charges, and fines, or where a flat rate of concession is applied such as the energy supply charge rebate.

Both vertical and horizontal equity are multi-dimensional. The differential effects of country as opposed to metropolitan living must be considered given the impact of geographical isolation in a State as large and as centralised as Western Australia. Residents of rural and remote areas face a very different financial situation from their metropolitan counterparts.

The equity effects of Payroll tax are difficult to assess as the effect of the tax may be felt through both higher labour costs and prices. The equity effects depend upon how much of the tax is borne by consumers (as increased prices), employees (in the form of lower wages) and how much is borne by employers. All three may bear the tax in part. Overall, studies indicate that Payroll tax is unlikely to have any significant effect on employment^{iv}.

Currently, there are payroll tax exemptions granted to the following groups:

- Religious Organisations
- Hospitals
- Schools
- Government Departments
- Public Benevolent institutions
- Charities

These exemptions should continue to be provided from both an ability to pay perspective, and an efficiency perspective. If Government funded agencies and government departments were subject to payroll tax, they would have increased costs, which would therefore require increased government funds resulting in a zero sum game for consolidated revenue.

WACOSS believes that land tax should be extended to high-value places of principal residence (including provision for postponement of payment until sale of the property or death of the owner). The value cut-off should be high, so as to include not more than ten per cent of owner-occupied properties and, as with business land taxes, the tax schedule should be progressive to avoid major tax increases at the threshold.

Land tax on high-value places of principal residence aims to ensure those in our community who have the greatest capacity to pay make an additional contribution to important services. Such a tax could raise an average of \$10 million a year, which is needed to meet community demands in health, education and law and order.

While we recognise that Western Australia has the lowest total of annual registration, compulsory third party insurance and other charges for a typical family vehicle across Australian jurisdictions^v. Compulsory third party motor vehicle insurance and Motor Vehicle registration charges are inequitable in that they are levied at fixed rates, irrespective on income. Smaller cars are subject to lower charges, but there is no necessary correlation between size of car and ability to pay. For example, large families require larger cars, seniors may need larger vehicles because they find it difficult to get in and out of small vehicles and people with disabilities may require larger vehicles to meet their particular needs.

The family concession on motor vehicle registration is poorly targeted, as it is a flat rebate available to all owners of family motor vehicles, irrespective of their income. It is of no benefit to those who do not own a car. For both of these reasons, it is inequitable. The increase of \$25 in this concession in the 2005-06 state budget is at a cost of \$179 million over 4 years – money that could be better spent on targeted assistance to the poorest members of the community.

Motor vehicle use is inelastic, particularly in the short term, as owners have made a substantial investment in a vehicle that is difficult, sometimes impossible, to recoup. There are limited public transport options available in many parts of the state. Care must be taken with motor vehicle fees and charges not to harm the already disadvantaged.

ENHANCING EFFICIENCY

Payroll tax is an efficient tax, but it has a small base, with few companies subject to it. However, it is an important tax in Western Australia, accounting for 31% of total taxation revenue in 2005-6^{vi}. Payroll Tax is expected to grow at an average of 5.8% pa in the coming years.

Payroll tax is considered efficient because, if equitably imposed, it is difficult for people to avoid paying and can be easily costed by business.

Land tax is an efficient tax base, but an expensive tax to administer, as land needs to be valued, however land valuations are also required for other purposes as well, so the full cost is not borne by the Office of State Revenue.

Though land tax impinges on the cash flows of businesses (and in the latter case households), the standard economic analysis is that they are incident on capital values. It follows that any relief will result in a windfall gain for sitting owners. A further reason for opposing any cuts to land tax is that these would benefit the metropolitan area, where most high-value properties are located, at the expense of country Western Australia.

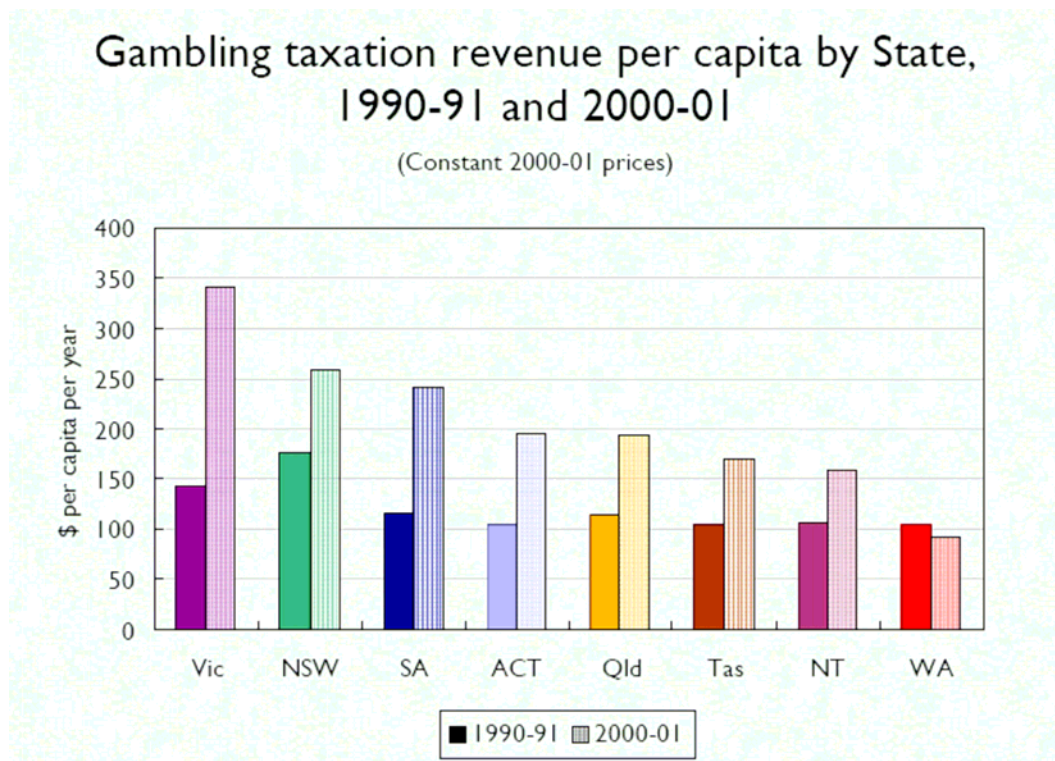
ENHANCING OTHER OBJECTIVES

Gambling Tax Revenue

WACOSS congratulates the State Government on resisting the installation of Poker Machines in Western Australia. A 1999 Productivity Commission report into an investigation of the gambling industry found that the prevalence of problem gambling is directly related to the degree of accessibility of gambling, particularly poker/gaming machines. The income of the gambling industry is largely generated by the gambling habits and losses of the adult population of Australia, which is a very good reason to aim for low gambling revenue generation.

GAMBLING REVENUE BY STATE 2003-04

	\$ million	\$ per capita
NSW	1,311	195
VIC	1,324	268
QLD	726	189
WA	132	67
SA	379	248
TAS	79	165
ACT	50	155
NT	40	203



The State Government should continue to oppose poker/gaming machines in Western Australia. While other states have seen an increase in their gambling tax revenue they have also seen an increase in the economic and social burdens attached to gambling.

The impacts of gambling create both personal and societal economic and social costs. The 1999 Productivity Commission report found that, for individuals:

“The financial burdens borne by problem gamblers spill over the boundaries of their households, into wider family and friendship networks, into the non-profit sector and into the public welfare domain. This happens via a number of routes:

- *some problem gamblers lose their jobs and then require social security payments. They also tend to seek social security advances (in about 13 per cent of cases);*
- *their rates of ill-health appear to be higher — with implications for the health budget;*
- *they require assistance with their gambling problems from counselling agencies, which comes at a cost;*
- *the shortage of adequate household finance requires sporadic material aid from charities for some problem gamblers. The Commission’s Survey of Clients of Counselling Agencies found that 22 per cent of problem gamblers in counseling obtained material assistance from a charity when the money ran out. The average annual amount obtained was estimated at (a modest) \$200 per year for those who sought assistance. A sizeable majority of problem gamblers in counseling (64 per cent) said they lied about the reason for needing material assistance, so that the charities themselves are probably not highly aware of the burden placed on them by gambling problems; and*
- *they borrow from friends (58 per cent of cases) or simply defer or ignore bills (64 per cent of cases).*

Of course, overall problem gamblers pay huge taxes through their gambling to governments — roughly of the order of \$1 billion — so that there is little question that, as far as state governments are concerned, they are net beneficiaries of any transfers that take place. Their own families, businesses, friends, and charities almost certainly, however, pick up the main tabs.”

In addition, the Productivity Commission estimated the total cost that problem gambling creates in economic terms:

“In total, the Commission estimates that problem gambling imposes an annual cost (excluding the unmeasurable costs) of some \$1.8 billion to \$5.6 billion”^{vii}

Table 9.1 Costs of problem gambling
(\$ million, 1997-98)

	low	high
<i>Financial</i>		
Bankruptcy	1.3	1.3
<i>Productivity and employment</i>		
Productivity loss at work	21	150
Productivity loss outside work	7.2	50
<i>Job change</i>		
earnings loss	24	24
employee job search	13	13
employer staff replacement cost	22	22
<i>Crime and legal</i>		
Cost of police incidents	3.2	3.2
Court cases	5.6	5.6
Jail costs	5.1	5.1
<i>Personal and family</i>		
Emotional distress of immediate family		
Moderate problem gamblers	ne	ne
Severe problem gamblers	756	2 267
Emotional distress of parents		
Moderate problem gamblers	ne	ne
Severe problem gamblers	0	666
Breakup of a relationship ^a	288	864
Financial cost of divorce	2.8	2.8
Emotional cost of divorce	126	253
Cost of violence	2.8	8.3
Depression ^b	231	692
Thought of suicide ^c	120	239
Attempted suicide	70	117
Impact on immediate family	81	161
Impact on parents	0	21
<i>Treatment costs</i>		
Gambling counselling services	20	20
TOTAL	1 800	5 586

ne. Not estimated. ^a Excluding those that lead to divorce or separation. ^b Excluding those reporting thoughts of suicide. ^c Excluding estimated attempted suicides.

Affordability and funding tax relief

WACOSS believes that Governments need to first meet their funding commitments, and ensure that there is adequate community infrastructure and services prior to considering cuts in taxation. The Government must also consider community expectations, with research suggesting people would prefer increased spending on services rather than 'tax relief'.

WACOSS also believes that if Governments appropriately structure taxation, then ad hoc 'relief' from bracket creep and other unintended outcomes of taxation can be minimised. If 'tax relief' is considered a Government priority, then governments also need to consider who benefits most from the tax cuts.

Community expectations

In the lead up to the 2005 State election, WACOSS polled over 400 West Australians regarding their views on taxation and spending on social services. The poll found that three out of four West Australians would go without tax cuts in favour of increased funding for health, education and other key government services.

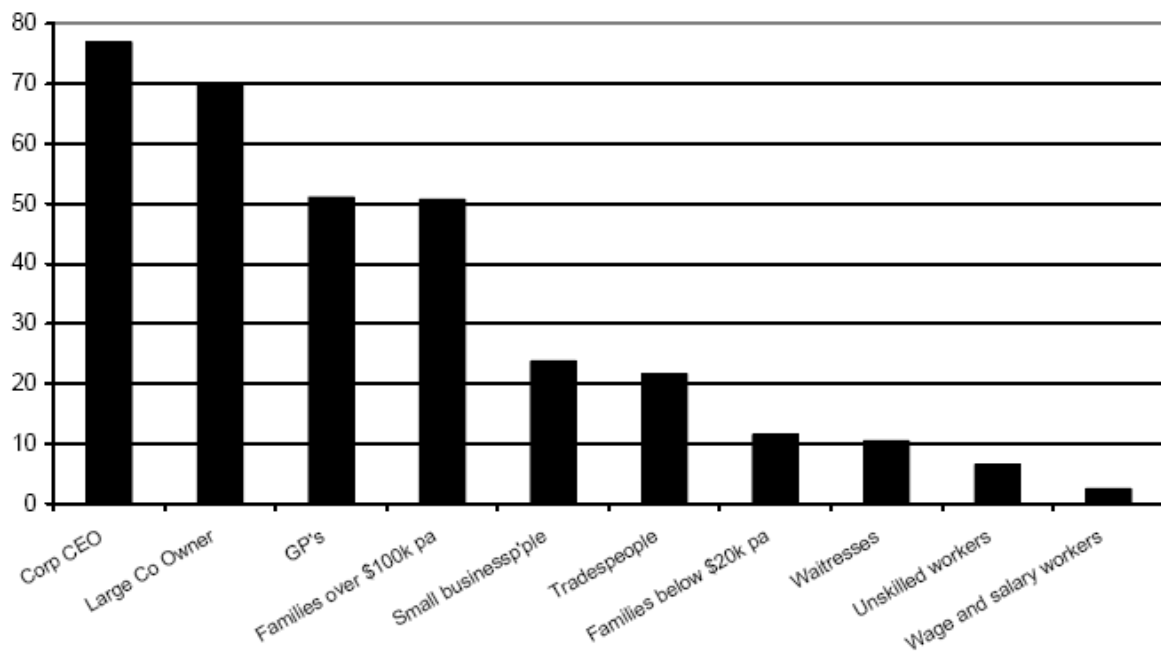
In addition, research conducted Australia-wide also provides an indication of the community expectations on reduced taxes versus social spending:

- A poll conducted by ACNielsen soon after the 2004/05 federal budget found that 20 per cent of respondents wanted its "sandwich and milkshake" tax cut, whereas 70 per cent would have preferred better services.
- Since 2000, both Newspoll and Roy Morgan have recorded health and education as the issues of greatest concern to voters, with both issues of growing concern over time. The taxation issue has declined in priority to now be of limited concern.
- A Roy Morgan poll done in February 2004 found that 88 per cent of respondents would prefer the Government spend money to fix problems in areas such as health, education and so forth rather than give a tax cut of \$5 a week.

It is also worthwhile to note public commentary on taxation and tax relief, including the views of George Lakoff in his most recent book *Don't think of an Elephant* that quite rightly illustrates the point that the use of the phrase 'tax relief' suggests that "taxation is an affliction. And the person who takes it away is a hero...". All West Australians pay taxes in some form or another. Fundamentally, it is important that everyone contributes because taxation allows Governments to provide vital facilities and services to the community. For Governments, taxation not only provides revenue, but also a means to influence economic and social development. Suggesting that contributions acquired via taxation present an affliction against people undermines the tax system and create pressure for Governments to be 'a hero' and offer 'tax relief' in an ad hoc manner. Ensuring that the state tax system is appropriately structured, the levying of taxes are targeted, and social concessions are supported, will minimise the need for knee jerk government reactions to provide unwarranted 'tax relief'.

Equal tax contributions by all sectors of the community, also create strong public perceptions. A report by the Australia Council of Social Service; Taxation, fairness and public opinion (October 2003) highlights the public perception of which occupational and social groups are paying less tax than their fair share- that these groups are provided with increased government 'tax relief'.

Percent of Australians who think occupational and social groups are paying much less or a bit less than their fair share of tax



Source: Braithwaite (2003), sample 7,754.

This data shows that a significant perception exists that high income families and individuals are not paying their fair share of tax.

Tax payers and tax cuts

It is also important to acknowledge that all people are taxpayers, and the taxpayer/dependent dichotomy that currently exists needs to be challenged. In a speech to the 2000 Australian Council of Social Service congress, Elspeth McInnes outlined the need to reverse such a dichotomy;

“The invocation of a simplistic dichotomy between the productive taxpayer and the parasitic welfare dependent has always been more a rhetorical device than a reality, as many income support payments are taxable, most income support recipients have been employed and paid income taxes, as well as taxes on imports, luxuries, petrol, alcohol, cigarettes and so on. The proportion of taxes paid by low income earners, including income support recipients, has in fact increased with the GST as proportionately more income is spent on basic essentials. Even children's pocket money spent on snacks is taxed.”

On Thursday 19 May 2005, the Premier stated to the Parliament :

“I recognise the focus of the cuts (2004/05 tax cuts) was on the economy and business side of the equation, but we indicated during the election campaign that we would provide assistance to families in Western Australia”.

The 2004/05 budget was titled: *Families First*, however despite this, the Premier acknowledges that the focus of the tax cuts was not on families. Business tax cuts result in less consolidated revenue to be spent on vital services and infrastructure, and non-existent or poorly targeted ‘family’ tax cuts do little to improve the situation for many West Australians. Even tax cuts which are touted as tax cuts for West Australians, such as land tax, are tax cuts for property investors who do not necessarily have to be West Australian. If all service and infrastructure commitments are met, and the Government is considering offering tax cuts, then these need to be better targeted, not just for businesses or well off West Australians, but for people in our community who are facing increased pressures on their own budgets to meet basic needs.

Concessions

“A concession is defined as a reduction, discount, subsidy, rebate, waiver or exemption provided by government on the value of goods, services or associated fees to an individual, family household or organisation. Concessions are the means through which government subsidies directly facilitate lower prices for people with special needs. They are generally provided on the basis of low income, special needs or disadvantage, or some other special category such as age or war service.”^{viii}

The Western Australian Government provides social concessions in the form of rebates, discounts and waivers to improve affordability of key services. In 2003-04 the State Government provided social concessions with an estimated value of around \$411 million. Given that eligibility for these concessions is often based on age forecast, demographic change could have a significant impact on the value of these concessions over the long term.

An alternative to providing concessions is to grant universal access to a good or service. That is, instead of some consumers receiving the good or service for no charge or a discounted charge, all consumers receive the good or service at no charge. An example of this is free parking. In recent years, Governments across the country have begun adopting the user pays principle for a range of services that were originally supplied at no cost.

Concessions are an integral part of the range of support needed by disadvantaged individuals and families. It is important to provide concessions for equity purposes, not as purely a form of charity. Concessions acknowledge that not everyone in society is on a level playing field when accessing government services. It is vital that concessions are accessible, equitable and adequate.

It needs to be acknowledged, when moving away from universal access to user charges, even if levied at concessional rates; this places additional financial strain on low income households. In this environment, the necessity to ensure concessions are properly targeted increases dramatically. The following criteria for designing concessions need to be considered:

- There is a clear identification and understanding of the target group
- The government's social objectives and desired outcomes from the concession arrangements must be clearly defined
- The operation of the concession produces the same outcome for people in similar circumstances (horizontal equity, i.e. people in similar financial circumstances are treated in the same way)
- The concession produces vertical equity¹ (i.e. people on different incomes are treated differently so that the relative financial burdens for people on high and low incomes is the same)
- The concession's entitlements are clear to intended recipients, non-discretionary in their application, and the concession system is easy to use by the total number of people it is targeted at
- People receiving the concession should receive the same goods and services on the same terms and conditions as apply to other customers
- The concession must be flexible enough in its design to respond to the changing circumstances of eligible groups
- The level of the concession must improve affordability in access to the service with which it is linked
- The concession must be effectively managed in order to achieve its stated objectives and intended outcomes
- The concession must be broadly consistent with other government policies
- The concession must be supplemented by a small program of safety-nets to provide one off assistance

In the WACOSS Pre Budget Submission 2005/06 and the WACOSS pre-election commitments 2005 report, WACOSS called for a full review of WA concessions.

A review of state concessions would ensure the accessibility, equity, and adequacy of current and proposed concessions could be assessed against interstate and best practice concession models.

The importance of concessions for low -income earners can not be underestimated. Concessions are an integral part of the range of support mechanisms needed by disadvantaged individuals and families.

Current deficiencies in state concessions include;

- Inequitable variations on eligibility criteria for concessions
- Variations with other State's and Territories, both types of concessions and eligibility of concessions
- Inadequate use of Community Service Obligations
- Complicated and inaccessible concessions due to outdated governing frameworks
- Administrative issues, such a complex forms, multiple registration processes, and lack of information to access concessions.

Specifically, many of the concessions available to lower income Western Australians are manifestly inadequate and should be increased immediately. Other, much needed, concessions are unavailable altogether. For example:

- Western Australia is the only Australian State or Territory that does not provide a continence product subsidy. This appalling omission has extremely negative consequences of people with disabilities and their carers and seniors who suffer from incontinence.
- The Spectacles Subsidy Scheme provides a maximum of \$50 every 2 years on a pair of spectacles. Given the cost of spectacles, this is grossly inadequate.
- Dental treatment, particularly in country areas, remains problematic. Many people on low incomes cannot access the dental treatment they need at an affordable cost.
- Waterwise rebates are available to people who can afford to purchase waterwise products, but those who are unable to afford them do not benefit from reduced water consumption and its associated cost.
- Environmental energy rebates are available for the installation of solar hot water systems, but few lower income individuals and families benefit from either the installation subsidy or the lower cost of hot water resulting from the installation.
- The Patient Assisted Travel Scheme (PATs) does not provide adequate assistance to country people coming to Perth for medical treatment.

A review of State Concessions would allow a number of inadequacies and inequities in the current system to be eradicated to ensure the State Government can maximise the value of concessions for individuals and the state.

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LABOUR FORCE STATUS (AGED 15 YEARS & OVER), States & territories: Original—August 2005

	EMPLOYED			UNEMPLOYED			Civilian population aged 15 years and over	UNEMPLOYMENT RATE		Participation rate	
	Full time	Part time	Total	Looking for f/t work	Total	Labour force		Not in labour force	Looking for f/t work		Total
	'000	'000	'000	'000	'000	'000		'000	%		%
MALES											
New South Wales	1 529.8	253.4	1 783.2	76.6	91.4	1 874.6	810.5	2 685.1	4.8	4.9	69.8
Victoria	1 164.6	210.6	1 375.2	50.2	65.3	1 440.5	551.1	1 991.6	4.1	4.5	72.3
Queensland	933.2	158.5	1 091.8	43.2	53.6	1 145.4	413.0	1 558.4	4.4	4.7	73.5
South Australia	342.7	59.6	402.3	18.7	22.6	424.9	193.0	617.9	5.2	5.3	68.8
Western Australia	501.4	80.1	581.6	21.0	26.1	607.6	195.5	803.1	4.0	4.3	75.7
Tasmania	97.5	20.7	118.1	6.5	7.9	126.0	64.7	190.7	6.2	6.3	66.1
Northern Territory	43.2	8.2	51.4	*1.1	*1.7	53.2	22.6	75.8	*2.5	*3.2	70.2
Australian Capital Territory	79.0	15.6	94.6	*1.4	2.8	97.5	28.6	126.1	*1.8	2.9	77.3
Australia	4 691.4	806.7	5 498.1	218.7	271.5	5 769.6	2 279.0	8 048.6	4.5	4.7	71.7
FEMALES											
New South Wales	788.0	674.7	1 462.7	34.7	64.9	1 527.6	1 243.1	2 770.7	4.2	4.2	55.1
Victoria	571.2	522.3	1 093.5	38.4	67.4	1 160.9	924.3	2 085.3	6.3	5.8	55.7
Queensland	482.8	410.0	892.8	32.1	51.6	944.4	650.8	1 595.2	6.2	5.5	59.2
South Australia	170.4	163.9	334.4	10.4	14.7	349.0	291.1	640.1	5.8	4.2	54.5
Western Australia	239.1	223.1	462.3	11.4	20.7	483.0	330.0	812.9	4.6	4.3	59.4
Tasmania	50.3	50.9	101.2	4.0	6.2	107.4	92.2	199.6	7.4	5.8	53.8
Northern Territory	31.8	13.2	45.0	*1.1	*1.8	46.8	24.2	71.0	*3.4	*3.9	65.9
Australian Capital Territory	53.7	33.1	86.7	*1.4	2.6	89.3	43.6	132.9	*2.5	2.9	67.2
Australia	2 387.2	2 091.3	4 478.6	133.5	229.8	4 708.4	3 599.3	8 307.6	5.3	4.9	56.7
PERSONS											
New South Wales	2 317.7	928.1	3 245.9	111.3	156.3	3 402.2	2 053.6	5 455.7	4.6	4.6	62.4
Victoria	1 735.7	732.9	2 468.7	88.6	132.7	2 601.4	1 475.5	4 076.8	4.9	5.1	63.8
Queensland	1 416.0	568.6	1 984.6	75.3	105.2	2 089.8	1 063.7	3 153.5	5.0	5.0	66.3
South Australia	513.2	223.5	736.7	29.1	37.2	773.9	484.1	1 258.0	5.4	4.8	61.5
Western Australia	740.6	303.3	1 043.8	32.4	46.7	1 090.6	525.5	1 616.0	4.2	4.3	67.5
Tasmania	147.8	71.5	219.3	10.5	14.1	233.4	156.9	390.3	6.6	6.0	59.8
Northern Territory	75.0	21.4	96.4	*2.2	3.5	100.0	46.8	146.8	*2.9	3.5	68.1
Australian Capital Territory	132.7	48.7	181.3	2.8	5.4	186.8	72.2	258.9	2.1	2.9	72.1
Australia	7 078.7	2 898.0	9 976.7	352.2	501.3	10 478.0	5 878.2	16 356.2	4.7	4.8	64.1

* estimate is subject to sampling variability too high for most practical purposes

ⁱ Hilmer, Frederick G., Rayner, Mark R., and Taperell, Geoffrey Q. *National Competition Policy; Report by the Independent Committee of Inquiry*. Australian Government Publishing Service. Canberra, 1993.

ⁱⁱ Hon Eric S Ripper (2005) 2005-06 Economic and Fiscal Outlook. Perth: Government of Western Australia, p107.

ⁱⁱⁱ Hon Eric S Ripper (2005) 2005-06 Economic and Fiscal Outlook. Perth: Government of Western Australia, p106.

^{iv} ACTCOSS (2002). *Attachment 1 – inquiry into ACT revenue. Major Revenue Raising Measures – Addressing Equity*. Canberra, ACT: ACTCOSS.

^v Hon Eric S Ripper (2005) 2005-06 Economic and Fiscal Outlook. Perth: Government of Western Australia, p109

^{vi} Hon Eric S Ripper (2005) 2005-06 Economic and Fiscal Outlook. Perth: Government of Western Australia, p111

^{vii} Australian Government Productivity Commission, Australia's Gambling Industries, Inquiry Report. Page 9.11. December 1999.

^{viii} ACTCOSS Submission on ACT Government Concessions, 2002