COMMUNITY & PUBLIC SECTOR UNION
STATE PUBLIC SERVICES FEDERATION GROUP

31 May 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Tax White Paper Task Force

Submission to the Tax discussion paper

The CPSU-SPSF Group welcomes the opportunity to make a submission to the Tax White Paper process. We welcome a national conversation on tax reform, as we believe that the government does not currently raise sufficient revenue to adequately fund our public services.

As the representative of workers who provide our valuable state public services, we believe it is important for our union have a voice in this inquiry. Our union is also affiliated to the Australian Council of Trade Unions (ACTU), and as such our submission should be read in conjunction with the ACTU submission.

For further information regarding this submission, please contact Ms. Clare Middlemas, National Campaigns Officer, via email cmiddlemas@spsf.asn.au or 0488 454 003.

Yours sincerely

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Federal Secretary

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Submission to the Tax Discussion Paper
CPSU-SPSF Group

Tax is not a burden. Rather, tax revenue funds public services that are vital for our community. With state and federal governments around the country cutting and chronically underfunding our public services, however, our taxation system is in need of urgent reform to ensure Australia can properly fund public services now and into the future.

About the CPSU-SPSF Group

The Community and Public Sector Union (CPSU) is comprised of two groups – the State Public Service Federation (SPSF group) which represents state public sector workers, and the PSU group which represents federal and territory public sector workers. The combined membership of the PSU and SPSF groups makes the CPSU one of the largest trade unions in Australia. The SPSF Group is a federation of five autonomous state unions: the Public Service Association and Professional Officers' Association Amalgamated Union of New South Wales (PSA NSW); the Public Service Association of South Australia (PSA SA); the Community and Public Sector Union Tasmania (CPSUT); the Civil Service Association of Western Australia (CSA); and the Western Australian Prison Officers' Union (WAPOU); and the Victorian branch exists only as a branch of the SPSF as there is no separate state industrial relations system in Victoria.

In representing the workers who provide the valuable public services funded by our taxes, we are in a unique position to respond to this inquiry. This submission is a general statement in response to issues raised in the discussion paper, and presents our view on the fundamental principles that should form the basis of any taxation reform in Australia.

Australia needs tax reform

Tax revenue funds public services that are vital for our community. Government does not currently collect enough revenue, however, to adequately fund our public services now and in to the future.

State public services around Australia are woefully underfunded. The story is the same everywhere: increased demand for services, but no relative increase in staff and resources. For instance, parliaments in all Australian states and territories have enacted mandatory reporting laws of some description which require that certain classes of people must report suspected cases of child abuse and neglect to government authorities. Mandatory reporting results in a substantial increase in the number of reports made to Child Protection departments, however there has not been a sufficient increase in staffing and resources to keep up with increased demand. The result is that mandatory reporting matters may not be followed up at all, with cases closed for no further action because there are insufficient staff to follow up on the initial report. This is very stressful for staff as they are aware that early intervention can often ensure that the abuse or neglect does not escalate. This is a very clear example of the urgent need for sufficient resources to ensure that the most vulnerable children in our society are not put at risk. When governments do not invest sufficient resources in services such as child protection it not only results in serious harm for the individuals involved, it can also have the flow-on effect of increased demand to other public services, with individuals moving through 'the system': health and mental health services, housing services, and corrective services.

Underfunding of services is compounded by short-sighted government cutbacks such as the so-called 'efficiency dividend' measures, staff cuts, recruitment freezes, and privatization. It is evident that governments around Australia need to invest more public services, but all too often we are told that the well is dry.

A bigger pie

In order to adequately fund public services to meet the needs of our community now and in to the future, Australia must increase the tax base. It is a myth that Australia is a high-taxing country and that taxes should be reduced. Australia's tax-to-GDP ratio is low by international standards – we are one of the lowest taxing countries in the OECD, and have been for decades. The gap between our tax-to-GDP ratio and the OECD average has been roughly constant since the mid-1960s.[1]

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[1] Australian Council of Trade Unions, 'Myths and Realities: The tax system and attitudes to taxation', *ACTU Working Australia Tax Paper No. 1.*, 2011, p. 66. www.actu.org.au/media/121432/ACTU_Tax_Paper_Myths_and_Realities.pdf

Governments around the country cut public services in the name of 'repairing' state budgets and delivering surpluses. Missing in this debate over government spending, however, is an analysis of whether government income is sufficient to deliver the quality services Australians expect. Rather than squabbling over the size of the slice of pie spent on public services, it is time government recognised that we need a bigger pie!

A thorough review of Australia's tax system must take a broader view; it should first start the conversation about the role of government in our society - what standard of public services do Australians expect their governments to provide? What resources are needed to provide quality services and infrastructure? From there our taxation system must be re-assessed to determine if it must be reconfigured to meet community need.

It is disappointing that rather than engage in this type of big-picture thinking, however, the Taxation Discussion Paper has instead declared that its goal is to develop a tax system to 'deliver taxes that are *lower*, simpler and fairer.' It is our view that lowering taxes is short-sighted and will continue to erode our public services.

Indeed, public opinion does not support lowering taxes. In Per Capita's annual tax survey, a large majority of Australians (69.7%) stated they supported higher spending on public services.[2] When asked how they would like government to fund that spending, most respondents wanted to lift income tax in a progressive way: 45.7% of respondents preferred raising taxes on the top 5% of income earners, while a further 22.5% supported removing tax concessions on housing and superannuation. Other options such as broadening the GST and increasing the GST enjoyed less than 10% support.[3]

We argue that in order to safeguard our public services for future generations, our government must consider increasing taxes, and in particular must take immediate action to ensure that companies and high income earners pay their fair share. Governments must take action to preserve and increase spending on services and infrastructure, rather than engaging in short-sighted cuts and asset sales.

Principles for fair tax reform

We believe that any reform to the tax system must be aimed at making the system more progressive overall. Personal income tax is the main source of progressivity in the tax system, with taxes rising with individuals' ability to pay. Many other taxes are proportional or regressive, however, meaning the overall Australian tax system is only weakly progressive as a result.[4] Therefore, tax reform should focus on making the system fairer for all Australians. Reform should *not* involve increasing or broadening the GST or other flat taxes, and should *not* cut taxes for high income earners or big business.

We reiterate the Australian Council of Trade Union's (ACTU) principles for fair and effective tax reform, outlined in their Tax and Revenue Policy. Tax policy should be developed in accordance with the following principles:

1. Policy settings must secure sufficient revenues to enable all levels of government to fund the type of society that Australians want, need and deserve, including universal access to public goods such as health, education and welfare, and a decent social wage;
2. Policy must act to fairly distribute public resources and provide a decent social support safety net to achieve equal opportunity and alleviate poverty and disadvantage;
3. Policy should promote levels of investment, savings and consumption across the economy that will support employment, job security, wage growth, environmental sustainability and Australia's social goals;
4. Policy may need to compensate for instances of market failure including where necessary the use of an appropriate mix of tax and price signals to properly cost negative externalities particularly those affecting the environment and public health;
5. Individuals and companies must make a fair and progressive contribution to our tax base based on their different levels of income, regardless of the source of that income;
6. The efficient and equitable collection of public revenues requires a system of public tax administration with sufficient resources, capacity and skills; and

[2] David Hetherington, 'Per Capita Tax Survey 2014', June 2014, p. 6. http://percapita.org.au/wp-content/uploads/2014/06/small_2014_Tax_Survey.pdf

[3] *Ibid.,* p. 8.

[4] Australian Council of Trade Unions, 'Myths and Realities: The tax system and attitudes to taxation', *ACTU Working Australia Tax Paper No. 1.*, 2011, p. 14. www.actu.org.au/media/121432/ACTU_Tax_Paper_Myths_and_Realities.pdf

7. Tax rates are one among many factors that determine levels of investment and growth; reduction of the overall tax base will not secure the prosperity, jobs and fairness our community needs.[5]

GST

As stated above, tax reform should be aimed at ensuring our tax system is more progressive overall. The GST is a regressive tax, as high income earners spend proportionately less of their income on goods and services which attract them, while lower income families tend to spend proportionately much more. We therefore oppose any increase to the GST, or broadening the GST to include essentials such as fresh food. The only GST reform that should be contemplated is ending the exemption on private health and private education, which overwhelmingly benefits higher income earners. Research by the Australia Institute shows that ending these exemptions could net the government up to $2.3 billion per year.[6]

Corporate tax

The Taxation White Paper states that: 'each additional $1 collected by way of company income tax reduces the living standards of Australian households by around 50 cents in the long run because of reduced investment. This impedes Australia's productivity and, in turn, reduces opportunities for better paying jobs.'[7] We refute this claim. Research conducted by Public Services International suggests that: 'USA corporations are not influenced at all by the rate of corporation tax in deciding where to invest' and that 'Japanese multinationals are most influenced by public good infrastructure than corporate tax rates.'[8] Corporations benefit from selling to Australian consumers, and utilising our public infrastructure. Corporations must be made to pay their fair share. Although the corporate tax rate is 30%, the majority of ASX200 companies pay well below this. In the decade 2004-13, the average annual effective tax rate of these companies is 23% - which means $8.4bill less tax is paid annually by these companies than if they were paying the 30% rate.[9] Tax reform must include measures to ensure that companies pay their fair share, and make it more difficult for corporations to avoid their tax obligations, eg. amending ASX corporate governance principles to require all listed companies to disclose tax paid by parent companies, subsidiaries and offshore entities.

In conclusion, in order to maintain our standard of living, it is clear Australia needs urgent tax reform. The CPSU-SPSF Group hopes that this Taxation White Paper process, along with the Reform of the Federation White Paper, can begin a national conversation about the role of government in our society, and what kind of country we want to live in. This conversation is long overdue, and must not shy away from meaningful and progressive reform to our taxation system to ensure we can continue to adequately fund our public services now and into the future.

[5] Australian Council of Trade Unions, 'A Fair Share: Tax and Revenue', May 2015, http://www.actu.org.au/actu-congress-2015/congress-policy-resolutions/a-fair-go-for-all-policies/a-fair-share-tax-and-revenue

[6] The Australia Institute, 'Mature Debate on GST should include Health and Education Exemptions', 8 Jan 2015, http://www.tai.org.au/content/mature-debate-gst-should-include-health-and-education-exemptions

[7] Commonwealth of Australia, 'Re:think Tax Discussion Paper', 2015, p. 2.

[8] Public Services International, 'Why We Need Public Spending', European Federation of Public Service Unions (Brussels), May 2014, p. 51.

[99] United Voice and the Tax Justice Network, 'Who pays for our common wealth? Tax practices of the ASX200', October 2014, p.26. www.taxjustice.org.au/reports