Monday, 1 June 2015

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

Website: http://bettertax.gov.au/have-your-say/discussion-paper-submissions/

Dear Sir/Madam,

The Motor Trades Association of Queensland (MTA Queensland) responds to the invitation to join the national conversation on tax reform facilitated by *Re:think* the March 2015 tax discussion paper *(Better tax).*

1. Preamble

1.1 In making this submission, the MTA Queensland has confined its scope to matters that are directly the purview of the automotive value chain. It does not intend to be exhaustive or attempt to quantify rates of taxation or the impact and incidence of taxation options. We have confined this submission to comments on general principles relevant to the automotive value chain and qualitative comments about desirable outcomes for industry, the community and governments.

2 Principles

2.1 The MTA Queensland supports the three principles expressed in *Better tax* (p.14 Box 2.1) *equity*, *efficiency and simplicity*. We agree with these and take the opportunity to submit consideration of a fourth principle **-** uniformity - which can be construed to include harmonisation of fiscal imposts across the Commonwealth. This means that the states and territories would agree to uniform taxation rates; not use taxation disguised as fees and charges or user pays; or use subsidies to offset taxes for the purposes of attracting economic development, or commerce or other advantage.

2.2 Cross border businesses (large and small/medium/enterprises (SMEs))- including the motor trades - would benefit from the harmonisation of fiscal imposts such as payroll tax, land tax, stamp duties etc. Improving the way taxes, fees and charges are levied and administered has the potential to reduce complexity and business compliance costs. It is acknowledged that state and territory governments may not like uniformity of fiscal imposts, as it would remove opportunities to leverage taxation policy points of difference between their respective jurisdictions.

2.3 It is noted that the Henry Review identified five tax and design principles, adding two additional principles - 'sustainability' and 'policy consistency' (*Australia's future tax system*,

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ch. 2 box 2.1). We are in broad agreement with the context that 'policy consistency' is cast - "Tax and transfer policy should be internally consistent. Rules in one part of the system should not contradict those in another part of the system. …)"

3 Framework

3.1 Australia is a first world market economy of moderate scale that has been substantially impacted by globalisation. Our marginal propensity to import consumer goods exceeds 80 per cent which is high by world standards. Australia's current economic position is characterised by declining terms of trade for our extensive resource commodity exports and a hollowing out of the manufacturing sector because of the high exchange rate and high costs.

3.2 Historically, Australia's tax regime has been evaluated by making comparisons with other first world developed countries. This too has been a feature of the Commonwealth's *Better tax*. Such comparisons however, are substantially of little relevance because of Australia's federal fiscal structure. Australia is a federation of sovereign states and commonwealth territories with three levels of government and taxation. There appears to be of little benefit of making comparisons with countries with unitary systems of government.

3.3 Australia's federal system of government imposes a unique set of challenges on any reform program. If a taxation reform program is to be successful, the financial relationship between the Commonwealth, states and territories must be reformed as a precursor to the actual reformation of the taxation regime.

3.4 There are two major fiscal fundamentals that need to be addressed. These are vertical fiscal imbalance (VFI) and horizontal fiscal equalisation (HFE).

3.5 VFI relates to the disparity between the collection of revenue and expenditure of funding programs etc., having wide implications for the fiscal architecture of the commonwealth. For example the states siphon program funding costs to help finance administrative costs of their bureaucracies. As a consequence cost shifting occurs where programs are transferred from the Commonwealth to the states and territories and the states to local government but the corresponding revenue is not shifted resulting in a gap between expenditure and revenue at the state and territory and local government levels.

3.6 From time to time the states use quasi taxation to make up shortfalls in revenue that they have anticipated would be prescribed from the Commonwealth. This is done by the imposition of additional fees and charges under the guise of user pays programs for public sector goods and utilities that were previously funded under taxation regimes. This has caused a major fiscal conundrum, as the states and local governments have covered the funding gaps by large borrowings and are now carrying debt levels that they are having extreme difficulties in servicing. In particular some local governments are experiencing severe fiscal stress.

3.7 In order to reform the taxation system, the Commonwealth state financial relations needs to be overhauled and consideration needs to be given to the circumstances of local governments. It is MTA Queensland's view that there needs to be agreement on harmonising taxation across the Commonwealth. In particular there has to be agreement that the states and local government will not revert to quasi taxation and user pays fees and charges that impact unfairly on the private sector and its international competitiveness.

3.8 HFE is intended to ensure that the level of goods and services provided by Commonwealth expenditure is essentially equitable for all of the participants in the nation's economy. However, the lagged applications of adjustments for minerals royalties have distorted Commonwealth payments to Queensland and Western Australia in ways that should be addressed in future reforms of the tax regime.

3.9 The MTA Queensland understands from the 2015 *Intergenerational Report* that the Commonwealth and the states are facing significant fiscal challenges:

- from the demographic changes the nation will undergo in particular the aging of the population;
- the changes in economic structure, as the nation transitions from an economy where growth was generated by the export minerals and energy resources, more than likely will be one which will have as its growth engine in science and innovations, the small and medium business sector (and in this regard the motor trades in ready to play its part); and
- major new public sector responsibilities such as the National Disability and Insurance Scheme which in 2020 will require a further substantial tranche of funding.

3.10 The Commonwealth and the states are facing the fiscal challenge of servicing significant debt burdens. By 2016–17, combined Commonwealth and state general government net debt will exceed $350 billion—almost 20% of GDP, or more meaningfully, more than 50% of general government revenue. (Carling, States of Debt, Centre for Independent Studies T30.07). The taxation base has not been sufficient to generate the revenue needed for the public sector expenditures planned to service the demand for amenities, infrastructure and public sector goods.

3.11 Taxation reform cannot take place without agreement between the parties to the Commonwealth state financial construct to act with fiscal responsibility, ensuring that budgets are maintained in structural surplus in the near term and an operating surplus in the medium to longer term. This is imperative to ensure that Australia’s quality of life and standard of living is maintained to meet the aspirations of its people - as is expected from a first world country and to prevent further deterioration of the global competitiveness of the private sector.

4 Getting the balance right

4.1 It appears that having regard to the fiscal imperatives stated above, tax reform inevitably will involve decisions about the sectoral tax contributions and the balance the fiscal contributions between the direct and indirect taxation.

4.2 We submit that with respect to direct taxation, the reform agenda must have the competence to address bracket creep. *Better tax* (Box 2.2) states that:

Between 2014-15 and 2024-25, the percentage of taxpayers in the top two tax brackets (that is, with taxable income in excess of $80,000) is estimated to increase from around 27 per cent to 43 per cent under current policy settings.

It is estimated that over 2 million more taxpayers will be in the third income tax bracket (taxable income from $80,000 to $180,000) in 2024-25, compared to 2014-15. There is also estimated to be around 750,000 more taxpayers in the fourth tax bracket (taxable income above $180,000) in 2024-25 compared to 2014-15.

4.3 Treasury tax officials confirmed that about 80 per cent of the rise in revenue outlined in the 2015-16 budget would come from bracket creep (Financial Review, “Federal Budget 2015:” Bracket creep accounts for 80pc of revenue rise”, 13th May 2015). It would appear incongruous that the federal or state governments would rely on an inequitable policy vector such as bracket creep to enhance their fiscal positions.

4.4 The incongruity of Australia's tax system has been extensively documented. Australian governments levy at least 125 different taxes. Ninety per cent of tax revenue is collected by 10 per cent of the major tax instruments and 10 per cent of the revenue is collected by the remaining 90 per cent of taxes. This creates unnecessary complexity and cost and fiscal inefficiencies.

4.5 It is apt for MTA Queensland to take the opportunity presented by the reform agenda to submit simplification of the tax system by abolishing taxes that are unjustified or inappropriate. One such tax is the Luxury Car Tax (LCT) which the MTA Queensland submits falls within this tax category and is a tax instrument that is unable to comply with the 'principles' established in the *Better tax.* It lacks *equity*, *efficiency* and *simplicity*.

4.6 The LCT was a tax that was a quasi-tariff and part of an industry policy that is no longer relevant, as Australia's motor vehicle industry slowly is dismantled. The 2015-16 budget papers indicate that the LCT will raise $450 million in the coming financial year.

4.7 Referring to indirect taxation, the most important form is the Goods and Services Tax (GST) has complexities and advantages. The reform agenda could involve some considerations of the rate and tax base of the GST, if it was able to replace inefficient taxes that business and industry including the automotive value chain faces. As the GST accrues to the states and territories, any increase in GST could be based on providing some tax relief from other less efficient forms of taxation to which the private sector is exposed.

4.8 In terms of the motor trades, an important issue is uniformity between the treatment of parts and components retailed in Australia and those goods retailed outside the customs territory and imported for consumption within Australia. Without such uniformity, such parts and components retailed outside of Australia and valued less than $1,000 have an unfair advantage over those retailed in Australia.

5. Reform agenda

5.1 There have been several endeavours of fiscal reform in the 20th century, and some attempted in this century. Inevitably, they have involved top end and sophisticated reforms. It is our view that unless there is concomitant simplification of procedures and processes to taxation returns and assessments, the proposed reform process is likely to face the same difficulties as its predecessors. Unless there is a streamlining of procedures and processes it is unlikely any advance of tax reform is achievable.

5.2 It is MTA Queensland's view that the taxation reform agenda take account of the relationship that tax policy has to the whole of the policy framework of the nation. Tax policy must be considered in the context of for example industry, economic and growth, employment, training, and foreign policies. Therefore it must be considered in the circumstance of any reform agenda to minimise unintended consequences.

5.3 The Australian Government in delivering its 2015-16 budget, announced that the economy was transitioning from one where economic growth was generated by an externally oriented resource sector to one where growth would be generated by internally and externally oriented by SMEs. The automotive value chain is willing to play its part in this transformation, but is strongly of the view that for this transition to be successful, an effective tax reform involving tax architecture to support SMEs will be a necessary pre condition for sustainable growth.

5.4 The budget initiated important and welcome fiscal programs to support this transformation but major tax reforms are needed to progress this economic agenda to the next stage. We further submit that for these initiatives to be sustainable, the states and territories would have to participate by harmonising their tax systems and complying with the spirit of the commonwealth state financial agreement.

6. The MTA Queensland background

6.1 The MTA Queensland is the peak organisation in the State representing the specific interests of businesses in the retail, repair and service sector of Queensland's automotive industry. In the state there are some 14,000 automotive value chain businesses employing in excess of 73,300 persons.

6.2 It is an industrial association of employers incorporated pursuant to the Industrial Relations Act of Queensland. The Association represents and promotes issues of relevance to the automotive industries to all levels of government and within Queensland's economic structure.

6.3 The Association is the leading automotive training provider in Queensland offering nationally recognised training, covering all aspects of the retail motor trades industry through the MTA Institute of Technology (MIT). The MIT is the largest automotive apprentice trainer in Queensland employing 26 trainers based from Cairns to the Gold Coast and Toowoomba and Emerald. MIT last financial year accredited courses to in excess of 1500 apprentices and trainees.

7 Conclusion

7.1 We would be please to provide further comment on any matters in our submission that may require further clarification or amplification.

Thank you for your consideration.

Yours sincerely

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