

JUNE 2015

Submission to the Treasury

'Re:Think' Tax Discussion Paper



UnitingJustice Australia is a
unit of the Uniting Church in
Australia Assembly

Contents

1.	Introduction	3
2.	Recommendations	6
3.	General principles for Australia's tax system	8
3.1	Equity must be the first priority	9
3.2	Climate change mitigation and adaptation	11
3.3	Australia is a low tax country not a high one	12
3.4	Australia needs to raise revenue not cut taxes	13
3.5	Simplicity and efficiency must be balanced against equity	14
3.6	Not-for-profit sector services must be supported	15
4.	Individuals, families and savings	15
4.1	A progressive tax and transfer system	15
4.2	Barriers to workforce participation	16
4.3	Women's participation in the workforce	17
4.4	Superannuation tax concessions	18
4.5	Capital gains and negative gearing	20
5.	Business tax	22
5.1	Corporate tax must not be cut	22
5.2.	Addressing tax avoidance practices	25
5.3	Super profits taxes for mining companies and banks	30
5.4	Pricing carbon	33
6.	GST and indirect taxes	35
6.1	GST base not to be broadened and rate not to be increased	35
6.2	Alcohol tax reform	36

1. Introduction

UnitingJustice Australia is the justice advocacy and policy unit of the Uniting Church in Australia Assembly (the Church's national council). From its inception in 1977 the Church has been committed to justice and reconciliation between people. In 1977, in its first *Statement to the Nation*, the Uniting Church in Australia articulated the core values and vision which would drive its engagement in issues of social policy.¹ It promised to seek the correction of injustices wherever they occur, work for the eradication of poverty and racism, and oppose all forms of discrimination which infringe basic rights and freedoms. It also affirmed the rights of all people to equal educational opportunities, adequate health care, and employment or dignity in unemployment if work is not available. In particular, the *Statement to the Nation* said this:

We will challenge values which emphasise acquisitiveness and greed in disregard of the needs of others and which encourage a higher standard of living for the privileged in the face of the daily widening gap between rich and poor.

The Uniting Church believes that taxation is a profoundly moral matter. It is the primary means for ensuring the equitable distribution of wealth and the raising of public money, our 'common wealth', in order that we may ensure that the basic needs of people in society are met. In other words, it is one of the most important tools at our disposal for achieving economic justice and is vital to a flourishing society.

In its 1988 discussion paper entitled 'Economic Justice – the Equitable Distribution of Wealth', the Uniting Church articulated the following principles which underlie our approach to economic justice:

- For Christians, the question of economic justice is the question of how we respond to God's free gifts.
- Genuine material wealth is not defined in monetary terms, but as those things that contribute to the wellbeing of humankind.
- Humankind will be truly wealthy when everyone has access to the goods and services needed to satisfy basic needs.
- Access to genuine wealth cannot be restricted to a privileged section of society, for such wealth is a gift from God.
- Government spending has a positive role to play in Australia's economy.
- Taxation is necessary if the public sector is to fulfil its responsibilities.
- There are a variety of ways in which people contribute to society. Production is a communal activity.

¹ Uniting Church in Australia (1977), *Statement to the Nation*, <http://www.unitingjustice.org.au/uniting-church-statements/key-assembly-statements/item/511-statement-to-the-nation>

The Church believes that human wellbeing is supported by ensuring that people have access to financial security for a reasonable standard of living, decent and meaningful work, adequate education and healthcare, secure housing, appropriate social services, opportunities for cultural, technological, social and spiritual development, the right to participate in decision-making in the community and the growth of vibrant, safe and inclusive communities.

- The Uniting Church has a role to play in the economic policy debate, in helping society reflect on the nature of genuine wealth, especially the gift of the world and the communal nature of so much of the wealth which enriches human life.²

In its 2009 statement *An Economy of Life*, the Uniting Church in Australia set out a new vision for “re-imagining human progress for a flourishing world”.³ The statement was a response to a number of global crises including the growing disparity between the very few rich and the majority of the world’s population who struggle in circumstances of grave poverty, the threat of damaging climate change, and the persistence of violent conflict and global militarism. It identified a number of damaging aspects of the current globalised economy including:

- the unchecked drive for continual and unlimited economic growth (measured purely in financial terms) that, among other things, fails to take proper account of personal, social and communal measures of genuine human progress (for example, by focussing on the idea of people’s ‘productiveness’ measured solely by the capacity for paid work);
- the central value in the system of unrestrained consumerism which counts the worth of human beings by their capacity to spend (or ‘consume’); and
- the “single-minded pursuit of corporations to deliver profit to their shareholders” regardless of the costs to the sustainability of the earth’s resources.

An Economy of Life calls for a re-imagined economy where “our success, our progress, as societies and nations” is redefined “according to how well we support what is necessary for the flourishing of all people”. The Church believes that human wellbeing is supported by ensuring that people have access to financial security for a reasonable standard of living, decent and meaningful work, adequate education and healthcare, secure housing, appropriate social services, opportunities for cultural, technological, social and spiritual development, the right to participate in decision-making in the community and the growth of vibrant, safe and inclusive communities.

An Economy of Life outlined a re-imagined economy characterised by principles including:

- the abundance of the earth’s resources, food and water, managed in a just, participatory and sustainable manner, for the benefit of current and future generations;
- global poverty addressed as a priority over and above the continued growth of the already wealthy;
- local economies encouraged (on an eco-regional basis and within ecological limits) and supported by the global economy;

2 Uniting Church in Australia (1988), ‘Economic Justice – the Equitable Distribution of Wealth’, Assembly Social Responsibility and Justice Committee, available at <http://www.unitingjustice.org.au/just-and-sustainable-economy/uca-statements/item/473-economic-justice-the-equitable-distribution-of-genuine-wealth>

3 Uniting Church in Australia (2009), *An Economy of Life*, <http://www.unitingjustice.org.au/just-and-sustainable-economy/uca-statements/item/461-an-economy-of-life-re-imagining-human-progress-for-a-flourishing-world>

- workplace policies and practices which support vulnerable people in our society—including working people on low incomes, people who are unemployed, and people who are dependent on the incomes of others—to maintain a decent standard of living;
- taxation regarded not as a burden, but as how people contribute, according to their means, to the wellbeing of the whole community through redistribution and the provision of goods and services;
- social welfare regarded, not merely as a 'safety net' for the few deserving who slip through the system, but as an expression of our responsibility to each other and the common good, and essential for equity and fairness in society;
- the provision of universally accessible and affordable essential services such as water and electricity; and
- 'the market' regulated and held accountable for unjust and exploitative practices, environmental damage, excesses of greed, monopolies and other forms of exploitative collusion, the fostering of rampant and damaging consumerism and dangerous speculation within financial markets.

This submission is grounded in the values and the principles described above – the principles of justice, social wellbeing and environmental responsibility described by the Uniting Church over the decades since its formation. It outlines the key principles which we believe should be the basis for a reformed tax and transfer system in those areas covered in the *Re:think* Discussion Paper of greatest concern to the Church. This submission does not address issues relating to the not-for-profit community services sector. These issues are dealt with in the UnitingCare Australia submission. UnitingCare Australia is the national body which provides advocacy and support for the network of UnitingCare agencies operating across more than 1600 sites around Australia.

We are grateful for the opportunity to contribute to this important consultation process and offer this submission as a positive expression of the Uniting Church's commitment to the long-term wellbeing of all Australians, in particular those who are most in need in our society.

2. Recommendations

1. Revenue from the tax system should be the principal financial basis for funding all the ways in which government manages contributions to the common good, including for example, through redistribution to those most vulnerable and in need of social support, and for investment in the components necessary for a decent life for current and future generations of Australians, such as housing, healthcare, education, public transport and infrastructure.
2. The Australian Government should take account of climate change in all its forward economic planning, recognising the extra demands that the effects of climate change will place on government and community resources.
3. Taxes should be increased rather than decreased. An overall progressive tax structure must collect sufficient revenue to meet the redistributive and expenditure needs of Australia.
4. Measures to increase simplicity should not undermine fairness by removing measures that appropriately target tax expenditures.
5. The taper rates for income support payments should be reviewed to reduce barriers to returning to work while ensuring that recipients receive an adequate income.
6. Access to affordable childcare should be an important element of a policy to give the option of mothers remaining in the workforce.
7. Superannuation tax concessions should move from benefitting the wealthiest to ensuring that low income earners also have an incentive to save for their retirement.
 - a. The system should move from one that is concessional on contributions and investment and exempt on withdrawal (t,t,E) to one that is concessional at all points. Contributions and investments should be taxed at the member's marginal tax rate, less a 15% concession; and withdrawals subject to tax when received by the member less an offset of 15% if tax has been paid in the fund.
 - b. Low income earners need a real incentive to save through superannuation. If the above recommendation is not adopted, the Low Income Superannuation Contribution, which has been repealed with effect from 2017, should be retained.
 - c. The current exemption from the superannuation guarantee in respect of workers earning less than \$450 per month should be removed.
 - d. The current contribution caps allow high income earners to build excessive balances that are well above the income needed to fund a comfortable retirement. The caps should be reduced and an additional tax, similar to that imposed under Div. 293 Income Tax Assessment Act 1997, needs to apply to high balance superannuation funds to reduce the tax benefits of investing through superannuation.

- e. Workers with interrupted work patterns are disadvantaged under the current system. A system of rolling caps should be implemented allowing a person who has not worked continuously over a five year period to catch up contributions.
- 8. The Age Pension must remain as an adequate level of retirement income support for those who have not been able to save through the private superannuation system.
- 9. The capital gains tax discount and the availability of deductions for investment property losses which both benefit the wealthy should be reduced. Targeted relief should be available in respect of investments in affordable rental housing.
 - a. The CGT discount should be reduced across the board, and replaced by a notional indexation discount, based on the RBA target inflation rate of 3%.
 - b. Deductions for interest on investment loans should only be allowed as a deduction to the extent that there is income from the investment with any balance included in the cost base when the property is sold.
 - c. An exception to the quarantining rules should apply when the property is part of an approved affordable housing scheme designed to assist low income earners into housing. Such schemes should be designed to encourage new housing stock; the quality of the housing would need to meet minimum standards; rent would be at a benchmark below market rents; and income tests would be applied to tenants.
- 10. There should be no cuts to corporate tax.
- 11. The Australian Government should:
 - a. work collaboratively with other tax authorities around the world to combat cross-border tax avoidance and tax evasion by multinational enterprises, develop new international standards, and work towards a multilateral tax convention;
 - b. require greater transparency from multinational corporations, including country-by-country reporting. Privately owned companies should not be exempted from the tax transparency measures contained in the Tax Laws Amendment (2013 Measures No. 2) Act;
 - c. remove the ability of Australian subsidiaries of large foreign multinational companies to be able to claim exemption from the parts of the Corporation Act that require financial reporting;
 - d. ensure that the Australian Tax Office is adequately funded and staffed;
 - e. implement measures that seek to penalise secrecy jurisdictions that refuse to provide effective information exchange to encourage them to comply with automatic information exchange and other global standards addressing money laundering, tax avoidance and tax evasion;

The Uniting Church believes that the taxation system is our primary means for ensuring the equitable distribution of wealth and the raising of public money, our ‘common wealth’, in order that we may ensure that the basic needs of people in society are met.

- f. introduce a requirement for a public register of the ultimate beneficial owners of companies, given the role shell companies and special purpose entities play in both tax dodging and many forms of illicit flows.⁴ Australia should also support this becoming a global standard;
 - g. introduce legislation, modelled on a combination of both US and UK legislation, to protect and reward private sector whistleblowers that expose tax evasion, tax avoidance and fraud against all levels of government in Australia. The reward should be a proportion of any funds recovered as a result of the information provided by the whistleblower;
 - h. not introduce patent box rules similar to those in the UK and other European jurisdictions as they serve to divert profits to low tax jurisdictions to limit the tax revenue they should otherwise be paying in higher tax countries as well as being likely to reduce Australian corporate tax revenue; and
 - i. support moves to establish a United Nations International Taxation Office to strengthen cooperation in reducing international tax evasion and the capacity of all countries to establish and implement effective and equitable taxation regimes.
12. The Government should introduce a uniform and comprehensive resource rent tax.
 13. The Government should support and cooperate with other countries in implementing a tax on international currency transactions as a means of raising revenue, reducing international financial turbulence and redistributing wealth to address the global issues such as poverty and climate change that will affect humanity in the years to come.
 14. The Government should re-instate a price on carbon.
 15. There should be no increase to the rate or base of GST.
 16. There should be a progressive tax on alcoholic products, as the best public health solution to the health impacts of alcohol consumption.

3. General principles for Australia's tax system

The Uniting Church believes that the taxation system is our primary means for ensuring the equitable distribution of wealth and the raising of public money, our ‘common wealth’, in order that we may ensure that the basic needs of people in society are met. The *Re:think* paper sets out that, in addition to meeting its revenue raising objective, a good tax system will balance the core principles of equity, efficiency and simplicity. These principles are also described as “lower, simpler, fairer”. We explore these principles, and some additional key principles that we see as important.

⁴ Global Witness (March 2009), ‘Undue Diligence. How banks do business with corrupt regimes’, pp. 109-111

3.1 Equity must be the first priority

First and foremost Australia's taxation system should be equitable. As we see financial disparities widening globally—for people across generations, income groups, sources of income and different types of work—it is the role of the tax system to mediate these disparities and enable a more equitable sharing of the country's resources.⁵ An equitable system should ensure that the expenditure of public revenue acquired through the tax system focuses on service provision to those who are disadvantaged and vulnerable to enable them to have a decent life and access the services they need to facilitate economic and social participation. We also see public expenditure as vitally important in allowing all Australians to access the components of a decent life – adequate and appropriate food, clothing and healthcare; safe and secure housing; meaningful and decent work; accessible and appropriate public transport and infrastructure; education, rest and enjoyment; and the opportunity to participate in and contribute to community activities.

The *Re:think* paper asserts that “we need to keep the economy growing to safeguard our way of life”. UnitingJustice questions this assumption that continual economic growth is the only way to “safeguard our way of life”. The Uniting Church in Australia believes that economic growth which is driven by the thirst for profit and underpinned by the values of consumerism, materialism and individualism is now threatening human wellbeing and the sustainability of the planet:

It is a matter of survival that we must declare limits to ‘growth’. Growth as it is measured by ever-increasing wealth and profits is actually not human progress in a sense that reflects the creative flourishing of human beings, but simply ‘greed’. It is time to reconsider growth if we are to ensure the planet’s survival for future generations. We must reconsider growth also as we recognise and accommodate the inherently cyclical nature of economies. Above all we must re-imagine and redefine our success, our progress, as societies and nations according to how well we support what is necessary for the flourishing of all people.⁶

The priority given to continual and unrestrained economic growth is at the heart of a globalised economic agenda which is serving to entrench a growing disparity between the few who hold the majority of the world's wealth and the majority of the world who live in poverty. There is now significant evidence to suggest that this rising gap between rich and poor has actually curbed economic growth rather than enhanced it, that concern for the most vulnerable 40% of the population is essential for steady, durable economic growth, and that policy that invests in skills and education will be the most effective in achieving this.⁷

⁵ OECD (2011), *Divided we stand: why inequality keeps rising*, <http://www.oecd.org/els/soc/dividedwestandwhyinequalitykeepsrising.htm>

⁶ *An Economy of Life*, op. cit

⁷ OECD (2014), *Does income inequality hurt economic growth?*, <http://www.oecd.org/els/soc/Focus-Inequality-and-Growth-2014.pdf>

The *Re:think* paper defines equity as “fairness in the distribution of the tax burden”. Taxation should be regarded not as a ‘burden’, but as how people contribute, according to their means, to the wellbeing of the whole community through redistribution and the provision of goods and services. It is the principal financial basis for funding all the ways government manages these contributions to the common good. Taxation is, therefore, the community’s tool for ensuring an equitable society and providing the services required for a thriving community. This notion of equity encompasses several different elements. The tax and transfer system needs to be progressive and produce vertical equity, that is to ensure that the ‘burden’ of tax falls on those best able to pay. Horizontal equity is based on the idea of recognising difference, requiring that people in the same position pay the same amount of tax, and people in different positions (both social and financial) pay different levels of tax. We believe that socially beneficial personal and family circumstances require additional support through the tax and transfer system. We acknowledge the tax system can be used to encourage certain economic activities, while discouraging others. We support the appropriate use of taxes where they have been shown to discourage certain socially harmful activities, such as progressive alcohol taxes to discourage the misuse of alcohol, or taxes that discourage harmful speculation activities.

The principle of intergenerational equity in relation to the tax and transfer system will become increasingly important as we begin to see the impacts of earnings mobility on future generations, and as the Australian population ages and a higher proportion of the community becomes dependent on a smaller number of people in the workforce. Intergenerational earnings mobility has been found to be low in countries with high levels of inequality such as Italy, the United Kingdom and the United States, and higher in the Nordic countries, where income is distributed more evenly.⁸ Yet in Australia, policy proposals such as changing fees charged by universities, Medicare co-contributions and mandatory waiting periods for benefits, deny the younger generations (those born between the 1960s and the 2000s) the economic and social advantages enjoyed by older Australians including such as free tertiary education and healthcare and a social welfare safety net.⁹

The Organisation for Economic Cooperation and Development (OECD) report, *Divided we stand: why inequality keeps rising*, indicates that the greatest driver of inequality is the discrepancies in wages and salaries.¹⁰ There has been continued discussion in Australia about the salaries of CEOs of large corporations and whether there should be a new marginal top rate for large income earners. It has been argued that increasing the tax rate to 50% for those with incomes over \$1 million would increase the equity of the tax system and significantly increase revenue.¹¹ A higher income tax on high earning individuals is likely to have very little impact on their standard of living, but the revenue raised can make a tremendous difference for those who rely upon public services. Research also indicates that income equity is more closely linked to positive health outcomes, suggesting that in Australia standards of health and social wellbeing depend much more on

8 OECD (2011), op. cit.

9 N. Reece (6 March 2015), ‘The true drivers of intergenerational theft’, *Macrobusiness*, <http://www.macrobusiness.com.au/2015/03/true-drivers-intergenerational-theft/>

10 OECD (2011), op. cit.

11 R. Dennis (2008), *The case for a new top tax rate*, The Australia Institute, <http://www.tai.org.au/node/1418>

Socially beneficial personal and family circumstances, such as the raising of children and caring for a disabled, sick or elderly relative, require additional support through the tax and transfer system.

reducing income inequality than on economic growth without redistribution.¹²

UnitingJustice recognises that the tax system also needs to establish equity in the value attributed to unpaid caring work as opposed to paid work. Socially beneficial personal and family circumstances, such as the raising of children and caring for a disabled, sick or elderly relative, require additional support through the tax and transfer system. Research on Nordic capitalist societies and globalisation has established that “strong, effective social policies based on universal entitlements have been integral to some of the most successful models of economic development and renewal in our turbulent times”.¹³

Recommendation 1

Revenue from the tax system should be the principal financial basis for funding all the ways in which government manages contributions to the common good, including for example, through redistribution to those most vulnerable and in need of social support, and for investment in the components necessary for a decent life for current and future generations of Australians, such as housing, healthcare, education, public transport and infrastructure.

3.2 Climate change mitigation and adaptation

Australia’s aging and growing population, globalisation, and changes in technology are identified in the *Re:think* paper as challenges set to impact the economy and tax system in the coming half century. Yet, we are surprised and disappointed that climate change does not rate a mention (just as it was ignored in the Australian Government’s 2015 Intergenerational Report).

The Uniting Church regards human-induced climate change as a most serious threat to the future and integrity of life on earth. The scientific evidence on global warming caused by human activity and its potentially disastrous impacts is now indisputable.¹⁴ The Church believes that our abuse of the atmosphere and entire ecosystems for the sake of short-term economic gain for a few undermines our own future and that of generations to come. As John Hewson, former leader of the Liberal Party of Australia, said:

Apparently, it is not OK to leave our children and their children with the legacy of debt and deficits. Nor is it OK to leave them with the expectation of an Age of Entitlement. But, apparently, it is just fine to leave them with a level of carbon emissions that not only threatens their standard of living, but also risks the future of our planet.¹⁵

¹² Wilkinson & Pickett (2009), ‘Income inequality and social dysfunction’, *Ann. Rev. Sociol.*, 35:493–511

¹³ J. Buchanan (2014), ‘A new model for fairness in employment’, *Australian Options Magazine*, <http://www.australian-options.org.au/2014/05/1596/>

¹⁴ The information in this paper has been sourced from The Climate Council (<https://www.climatecouncil.org.au>), The Climate Institute (<http://www.climateinstitute.org.au/>), The World Wildlife Fund (http://www.wwf.org.au/our_work/people_and_the_environment/global_warming_and_climate_change), the Australian Government’s Department of Environment (<http://www.environment.gov.au>), and the United Nations Framework Convention on Climate Change (<http://unfccc.int>)

¹⁵ J. Hewson (9 March 2015), This isn’t a vision for a fair and prosperous society, *The Drum*, <http://www.abc.net.au/news/2015-03-09/hewson-this-isnt-a-vision-for-a-fair-and-prosperous-society/6290952>

It is estimated that climate change, if not addressed, will have significant negative impacts on Australia's environment and productivity, including increased severity of droughts, land degradation and desertification, increased intensity of floods and tropical cyclones, increased incidence of malaria and heat-related mortality, and decreasing crop yield and food security and to have far-reaching impacts on health, agriculture and native species in Australia.¹⁶

Climate change and its effects are not just a moral or environmental issue. Dr Peter Christoff, Associate Professor at the University of Melbourne, has expressed concern that inaction could have dramatic consequences for Australia's fiscal future:

The costs of future climate impacts could end up diverting public funds from other programs such as health or education. It could conceivably require the future introduction of large new taxes, or send public debt soaring, or all of the above. Without long-sighted planning, Australia's welfare state could end up being forcibly reconfigured by the costs of climate.¹⁷

Australia is in a region that will be significantly impacted by the effects of climate change as sea levels rise. We must acknowledge some responsibility to our neighbours through appropriate migration and foreign aid commitments, which will also require funding.

Recommendation 2

The Australian Government should take account of climate change in all its forward economic planning, recognising the extra demands that the effects of climate change will place on government and community resources.

3.3 Australia is a low tax country not a high one

Significant emphasis in the *Re:think* paper is given to the goal of a tax system that delivers lower taxes. We challenge the assumptions behind this ideological position. We do not think that taxation is onerous or that there is a need to decrease it further. Australia is already considered to be a relatively low taxing country. Many European countries including France and Belgium have government revenue at around 45% of GDP, and Denmark is close to 50% GDP, whereas in Australia that figure is less than 30 per cent.¹⁸

While it is often taken as fact that Australians would be better off if taxes were reduced, it is important to compare social and economic outcomes across high taxed and low taxed countries. High-tax Scandinavian countries such as Sweden, Norway, Denmark and Finland perform significantly better on a range of social indicators than low-tax countries such as USA, Canada, the UK, Ireland, Australia

¹⁶ W. Steffen (2015), *Thirsty Country: Climate Change and Drought in Australia*, Climate Council of Australia, p. 6 <https://www.climatecouncil.org.au/droughtreport2015>

¹⁷ P. Christoff (6 March 2015), 'Climate is an intergenerational issue, but the report ducked it', *The Conversation*, <https://theconversation.com/climate-is-an-intergenerational-issue-but-the-report-ducked-it-38371>

¹⁸ OECD (2014), *Revenue Statistics*, <http://www.oecd.org/ctp/tax-policy/revenue-statistics-19963726.htm>

Australia's revenue is consistently lower as a proportion of GDP than other OECD countries.

and New Zealand. One study found that high-tax countries have been more successful in achieving their social objectives than low-tax countries, and with no economic penalty. The low-tax countries had lower rates of poverty, better and more protections for the elderly, greater income equality, more gender equality, a greater percentage of the population having completed secondary school, lower rates of homicide, more trust in public institutions, less drug use and more leisure time.¹⁹

Our comparatively small revenue in Australia makes it difficult for the government to invest significantly in the kinds of services that not just help build economies, but help build societies. While the language of 'burden' can conceal it, the fact is that taxes have a number of significant benefits as a policy tool. Not only do they raise revenue to fund essential services, but they also serve, when designed well, to perform the important task of increasing social inclusion and community cohesion through deliberate income redistribution. It is critical that the Australian Government raise enough tax revenue to be able to improve social indicators such as rates of poverty, care for the elderly and those with disabilities, gender equality, workforce participation, life expectancy, education levels and general wellbeing.

3.4 Australia needs to raise revenue not cut taxes

According to a growing number of its top economists, Australia has a revenue problem not a spending problem. When Australia is compared with neighbouring countries, such as Singapore which has much lower taxes, we see that the economic structure of those countries does not support the provision of services such as welfare, aged care, disability care, health and education that we recognise as essential to a thriving community.²⁰ Cutting taxes is not the solution to the deficit issue. Some economists are suggesting that we need to raise revenue instead.²¹

As mentioned earlier, Australia's tax revenue is consistently lower as a proportion of GDP than other OECD countries.²² Australia's tax revenue could be much greater if it was an equivalent percentage of GDP to the average OECD country. Lower taxes mean reduced revenue for government spending, which translates into fewer services and consequently to the privatisation of services. This would likely lead to user-pays models whereby those who can afford private healthcare, education or safety nets seek that model, and those who cannot afford will find themselves experiencing such things as longer hospital wait lists, fewer educational opportunities and reduced pension payments.

19 N. Brooks & T. Hwong (2006), 'The Social Benefits and Economic Costs of Taxation: A comparison of High- and Low-Tax countries', Tax Justice Network, http://www.taxjustice.net/cms/upload/pdf/Benefits_and_Costs_of_Taxation.pdf

20 J. Irvine (18 April 2015), 'We have to raise revenue not just cut spending', Sydney Morning Herald, <http://www.smh.com.au/federal-politics/political-news/we-have-to-raise-revenue-not-just-cut-spending-20150417-1m16h.html>

21 M. Corden (5 December 2014), 'Australia needs higher taxes, not spending cuts', The Conversation, <https://theconversation.com/australia-needs-higher-taxes-not-spending-cuts-34657>

22 OECD (2014), Revenue Statistics, op. cit.

A continual focus on reducing taxes will inevitably result in lower levels of services.

The Australia Institute has highlighted a number of costed tax policy interventions that would address the budget deficit by increasing revenue rather than cutting spending. They recommend measures such as changes to super tax concessions, restrictions on negative gearing, scrapping the capital gains tax discount, introducing a Buffet rule (minimum average tax rate on high income earners), banking super profits tax, financial transactions tax, estate tax and restricting fossil fuel subsidies.²³ Some of these measures are explored later in this submission.

A continual focus on reducing taxes will inevitably result in lower levels of services. Any resulting increase in economic activity will not replace the welfare structures that Australians rely on, and result in increasing inequality as people without private resources are restricted to a basic level of subsidised health, education and other services.

Recommendation 3

Taxes should be increased rather than decreased. An overall progressive tax structure must collect sufficient revenue to meet the redistributive and expenditure needs of Australia.

3.5 Simplicity and efficiency must be balanced against equity

The *Re:think* paper invites suggestions for creating a simpler tax system. When considering the Government's goal of simplicity, we find ourselves asking the question 'simpler for whom?'. A system that is less cumbersome for government to administer may well see that burden shifted to tax payers. The pursuit of simplicity in the tax system is important, but simplicity should not be seen as a goal in its own right, nor should it disadvantage the most vulnerable. A simple tax system can be a very unfair system and lead to distortions. The UK poll tax, which was implemented across the board (equally but not equitably) and was met with significant dissatisfaction, is an example of this. Mechanisms designed to increase equity or take account of the idiosyncratic circumstances of some disadvantaged groups tend to reduce simplicity, and such measures must be evaluated against a broader set of criteria than just simplicity. Embodying the principle of horizontal equity, for example, into the tax and transfer system will require some degree of complexity in eligibility requirements and different concessions and transfers. We should be prepared to allow inefficiencies in favour of fairness in such circumstances.

There are circumstances where reducing complexity in the tax system would be beneficial. For example, the compliance processes associated with Fringe Benefits Tax (FBT) for the not-for-profit sector is considered administratively complex.

²³ M. Grudnoff (3 May 2015), It's the revenue stupid: ideas for a brighter budget, <http://www.tai.org.au/content/its-revenue-stupid-ideas-brighter-budget>

An unambiguous way to simplify the tax system, and in turn to increase the amount of tax revenue available to fund essential services, is to remove a wide range of tax exemptions. Such exemptions, which are also known as ‘tax expenditures’ impose significant costs on the Commonwealth Budget but are less transparent than direct expenditures incurred by the Commonwealth. That is, while each year the Government is required to seek parliamentary approval to appropriate funds for specific purposes, there is no such annual obligation to gain parliamentary approval for tax expenditures. That said, the Treasury does publish an annual summary of the nature and extent of tax expenditures.

Recommendation 4

Measures to increase simplicity should not undermine fairness by removing measures that appropriately target tax expenditures.

3.6 Not-for-profit sector services must be supported

Australia’s not-for-profit (NFP) sector is made up of a wide range of structurally diverse organisations which are, by definition, driven by mission and purpose rather than for financial gain. They seek to support some of the most vulnerable and disadvantaged people in our society, often delivering services in areas where for-profit organisations choose to be absent for reasons of profit. These NFP services should continue to receive funding and tax concessions.

The UnitingCare network is part of the not-for-profit sector, and we refer to the UnitingCare Australia submission to this consultation for a more detailed analysis of the significance of the NFP sector, and how specific tax arrangements such as tax concessions for NFPs, deductible gift recipient status, Fringe Benefits Tax (FBT) and concessions linked to public benevolent institution (PBI) status could be reformed.

4. Individuals, families and savings

4.1 A progressive tax and transfer system

One of the fundamental principles of a fair taxation system is the ‘ability to pay’ principle: taxes should be levied in proportion to a person’s ability to pay the tax.

Australia is recognised as having one of the most progressive tax and transfer systems in the OECD due to the combination of progressive tax rates with means testing on transfer payments. It is essential that the tax and transfer system remains, overall, redistributive to reduce inequality and lower poverty rates. The role of the tax system, in this context, is to collect taxes from those with the ability to pay with the transfer system being the mechanism for redistributing resources

The focus of tax reform should be fairer and better targeted taxes.

to those who need additional support. We note that, unlike the Henry Review, the *Re:think* discussion paper recognises that the transfer system interacts with the tax system, but it does not address the effect that tax reform will have on the transfer system.²⁴

The latest OECD research on inequality shows that inequality affects the economy by reducing growth and that redistribution through tax and transfer systems does not limit economic growth as long as it is properly targeted.²⁵

The personal income tax system is the most appropriate tool to collect tax for redistribution; accordingly it needs to be robust and progressive. The ability to pay principle should be the primary design feature of the personal income tax system, regardless of the age of the taxpayer or the character of the income received. Currently there are a number of design flaws in the tax system that shelter the income of individuals who have a greater capacity to pay tax: for example superannuation payments to retirees is tax free, and capital gains are taxed at lower rates of tax. This is in contrast to the robust income and assets tests incorporated in the means testing regime that applies to people claiming transfer payments.

The current discussion paper argues for lower, simpler and fairer taxes. We argue that the focus of tax reform should be fairer and better targeted taxes. The 2015 Intergenerational Report shows that Australia will face budgetary pressures over the next 40 years as demand for government funded services increases.²⁶ However the focus of the discussion paper is on lower taxes rather than on ensuring that all Australians contribute to the system as they are able. If taxes are further reduced, the resultant budgetary pressure is likely to lead to further reductions in spending on services. This will increase inequality as those reliant on government funded services such as health and education will be forced to accept a lower standard of services than those who have the means to supplement government services with privately funded services.

4.2 Barriers to workforce participation

Workforce participation should be supported through the tax and transfer system as decent work is the best avenue to reduce poverty, critical for personal wellbeing and important in the growth of vibrant and healthy communities. Chart 3.3 in the Discussion Paper shows the relationship between work and income levels. However, there will still be a proportion of the community who are unable to work due to either temporary or long-term limitations, and these people must be entitled to an adequate level of income support.

Effective marginal tax rates (EMTRs) are an important factor in the decision of those receiving income support to participate in the workforce. There is a common perception that the EMTR is most relevant to workers who pay more tax as taxable income increases. The arguments against 'bracket creep' include the

²⁴ <http://bit.ly/1eMo1X1>

²⁵ OECD (2014), *Does income inequality hurt economic growth?*, op cit

²⁶ Australian Government (2015), *Intergenerational Report 2015*

argument that workers who are on the cusp of paying a higher marginal tax rate may be discouraged from accepting additional work. We would argue that in the modern economy, with the highest marginal tax rate of 45%, the effect of bracket creep would not be a significant factor in a decision about whether a person in work would work additional hours – the average tax rate is more important to a person who is in work.

In fact, the effect of the EMTR is far more significant on those individuals receiving income support or family tax benefit payments, and the effect of tax reform on the transfer system should be explicitly considered as part of the reform agenda. The highest EMTRs are experienced by people moving off transfer payments into paid employment. At low income levels, earnings from work can result in a significant reduction in transfer payments, which can reduce the incentive to enter into work. Most individuals will readily move from transfer payments to full-time work as the EMTR falls once the taper for transfer payments is exhausted. However if a person receiving income support is offered part-time work, the EMTR is much higher as income support benefits are withdrawn at 50c in the dollar in addition to the marginal tax rate of 19 per cent.

The Henry Review referred to the relationship between income adequacy, incentives for self-support and program cost as the “iron triangle of means testing”.²⁷ We submit that currently the triangle is lopsided, with income support payments for those out of work being inadequate. The taper rates impose particularly high EMTRs on those who are seeking additional work to remove the need for welfare assistance.

Recommendation 5

The taper rates for income support payments should be reviewed to reduce barriers to returning to work while ensuring that recipients receive an adequate income.

4.3 Women’s participation in the workforce

There are particular issues regarding workforce participation rates of women. There are a number of reasons for encouraging women to remain in the workforce, including:

- increasing earned income in low income households; and
- encouraging women to accumulate economic resources to fund retirement.

Australia has one of the highest rates of part-time work by mothers in the OECD.²⁸ Effective marginal tax rates have a substantial impact on workforce participation rates, particularly in relation to two parent households, but the role of the mother as carer is an additional key factor in decision making. While EMTRs are substantially a cost benefit analysis, the allocation of time between paid work and the carer role involves the substitution effect: mothers will balance their hours in paid work against their other responsibilities.

²⁷ K. Henry et al (2010), op. cit. Part 2, Vol. 2 p. 498

²⁸ OECD (2012), Closing The Gender Gap: Act Now, OECD Publishing, doi: 10.1787/9789264179370-en <http://www.oecd.org/gender/closingthegap.htm>

Affordable childcare should be an important element of a policy to encourage mothers to remain in the workforce.

When the primary caregiver considers increasing her working hours, the EMTR must take account of the Family Tax Benefit (FTB), which is means tested and withdrawn at rates of 20% or 30% for Part A and an additional 20% if the family qualifies for FTB. Added to the marginal tax rate, the EMTR faced by a primary caregiver returning to work can be 80-90% before paying for childcare.

Despite this, EMTRs are not necessarily the primary driver for women's lower participation in the workforce. It is well established that women's workforce participation rates are highly elastic, particularly during the period that mothers are juggling child rearing duties with paid work.²⁹ Decisions as to whether a mother will work, and the extent to which she will work, are affected not only by taxation considerations, but also by the need to purchase services to replace those she would normally provide – particularly childcare and other domestic services.

Affordable childcare should be an important element of a policy to encourage mothers to remain in the workforce. We note that the Government has announced a package to increase funding for childcare. However it is important that the provision of childcare funding does not reduce income or FTB payments to families in need those payments.

Recommendation 6

Access to affordable childcare should be an important element of a policy to give the option of mothers remaining in the workforce.

4.4 Superannuation tax concessions

The current tax arrangements for superannuation are unfair and unsustainable.

The 2007 reforms to the superannuation system have resulted in substantial tax benefits to higher income earners who can afford to save large sums in the tax sheltered superannuation system. As highlighted in both the Henry Review and the current tax discussion paper, the tax rate applicable to earnings in a superannuation fund are tax sheltered, encouraging a distortion in investment behaviour. The tax incentives available through superannuation are skewed to investors in higher tax rates:

- The surcharge applied to superannuation funds where the member earns more than \$300,000 has reduced the benefit to the highest income earners, but the marginal tax rate on superannuation remains 15% below the tax paid on other investments; however this only affects a small proportion of the population. In the 2012-13 Tax Statistics less than 1.5% of taxpayers reported a taxable income of more than \$250,000.
- In contrast, the 30% of taxpayers earning less than \$37,000 in 2012-13 would have paid only 4% less tax on their superannuation than they would have on other investments, before taking into account the Low Income Superannuation Contribution.
- Once a superannuation fund moves into the retirement phase all income earned by the fund is exempt, as is the pension drawn by the fund member.

29 P. Apps (2007), 'Taxation and Labour Supply', Australian Tax Forum, Vol. 22, No. 3, pp. 89-116

While drawing tax free pensions from a superannuation fund, many pensioners still qualify for a part pension. The generous tax treatment of retirement savings (relative to the standard tax regime for assets in Australia) had an estimated revenue cost in 2013-14 of \$29.7 billion, divided between \$16.3 billion of contributions tax concessions and \$13.4 billion in superannuation entity concessions. In comparison, the Age Pension cost \$39 billion in 2013-14. Official projections indicate that by 2017-18 the cost of the tax expenditures on superannuation (\$48.5 billion) will be nearly equal to the cost of the Age Pension (\$49.7 billion).

The Financial System Inquiry recommended that the Tax White Paper process consider the asymmetry between the tax on contributions and the tax on retirement.³⁰ We believe that the current system contributes to growing inequality and needs to be reformed.

Recommendation 7

Superannuation tax concessions should move from benefitting the wealthiest to ensuring that low income earners also have an incentive to save for their retirement.

- a. *The system should move from one that is concessionally taxed on contributions and investment and exempt on withdrawal (t,t,E) to one that is concessionally taxed at all points. We propose that contributions and investments are taxed at the member's marginal tax rate, less a 15% concession; and withdrawals are subject to tax when received by the member less an offset of 15% if tax has been paid in the fund. This would retain the incentive to save; equalise the tax benefit across the population and tax superannuation consistently with franked dividends.*
- b. *Low income earners need a real incentive to save through superannuation. If the first recommendation is not adopted, the Low Income Superannuation Contribution, which has been repealed with effect from 2017, should be retained.*
- c. *The current exemption from the superannuation guarantee in respect of workers earning less than \$450 per month should be removed.*
- d. *The current contribution caps allow high income earners to build excessive balances that are well above the income needed to fund a comfortable retirement. The caps should be reduced and an additional tax, similar to that imposed under Div. 293 Income Tax Assessment Act 1997, needs to apply to high balance superannuation funds to reduce the tax benefits of investing through superannuation.*
- e. *Workers with interrupted work patterns are disadvantaged under the current system. A system of rolling caps should be implemented allowing a person who has not worked continuously over a five year period to catch up contributions.*

Recommendation 8

The Age Pension must remain as an adequate level of retirement income support for those who have not been able to save through the private superannuation system.

³⁰ D. Murray et al (2014), 'Financial System Inquiry: Final Report', Commonwealth of Australia, <http://fsi.gov.au/publications/>

4.5 Capital gains and negative gearing

The interaction of Capital Gains Tax and negative gearing significantly erodes the tax base giving tax incentives to property investors.

The capital gains tax was introduced in 1985 to broaden the tax base however in 1999 the discount was introduced to exempt half of the capital gain significantly weakening its effectiveness. There is a clear relationship between taxable income and capital gains, as shown in the following data extracted from the 2012-13 Tax Statistics.

Taxable Income	% of taxpayers returning capital gain	Average value of gain
\$6,000 - \$37,000	3%	\$4,501
\$37,001-\$80,000	3%	\$8,513
\$80,001 - \$180,000	6%	\$18,780
\$180,000 - \$250,000	11%	\$37,916
More than \$250,000	16%	\$186,211

Table 1: Calculated from Taxation Statistics 2012-2013 Individuals: Table 9 selected items, by taxable income and total income, 2012-2013 income year

Clearly the discount on capital gains disproportionately flows to taxpayers on higher incomes. The 2014 Tax Expenditure Statement shows the discount resulted in \$5.8 billion of foregone revenue in that year.

UnitingJustice believes that the discount is excessive and the benefits of the discount flow disproportionately to higher income earners, reducing the progressivity of the income tax and eroding the tax base.

As noted in the *Re:think* discussion paper, negative gearing is not, of itself, a tax concession but an application of the general deduction rules. Although any asset can be negatively geared, the most noticeable impact is on rental investments due to the size of borrowings relative to rents received, and the flow on effects to the rental market. The economic issues relate to the effect that removing the concession has on the housing market: specifically the impact on house prices, which affects entrants to the housing market, and whether reducing the taxpayer subsidy will result in a shortage of affordable rental accommodation.

The tax shelter works by allowing an investor to claim a loss on rental investments against income from other sources, reducing the tax payable on that income (negative gearing). This subsidises the cost of the investment which results in a concessional tax on capital gain when the property is sold. Some sectors of the property market capitalise on this, using calculators that specify the “tax subsidy” when modelling the overall gain on an investment property.

There is a clear asymmetry as the deductions are allowed in full but 50% of the capital gains are exempt from tax. The impact of negative gearing on rental investments is not identified in the Tax Expenditure Statements. Chart 4.3 in the *Re:think* discussion paper identifies the highest number of negatively geared

taxpayers have a taxable income of less than \$80,000. Further analysis shows that higher income earners claim higher deductions for property losses, including negative gearing (Chart 3.5) resulting in higher levels of tax subsidy. However both charts are based on taxable income.

An alternative source of data is the Reserve Bank of Australia (RBA). According to the RBA data, in March 2012, 23% of households in the top income quintile have an investment loan, reducing to 3% of people in the lowest income quintile.³¹ Gearing ratios are also higher for investors in the middle (60%) to top (57%) quintile than for households in the lowest quintile (40%).

The most commonly cited argument for allowing property losses to be claimed when incurred, cite experiences in the property market period between 1985 and 1987 when the Hawke/Keating Government restricted interest deductions on property acquired after July 1985. The quarantining measures were repealed in 1987.

The factors prevalent in the housing market at the time were documented by Badcock who concluded that the change in investment in residential housing was a response to other factors including rising interest rates, the rising stock market and the cyclical nature of housing investment.³² Further, the impact on rental properties was not an Australian response but was concentrated in the Sydney market, with an additional factor in the Perth market due to the Americas Cup. At the 1987 Cabinet meeting where the policy reversal was approved the supporting papers note that:

With the notable exception of Sydney, conditions in the residential rental property market are not unusually tight. The evidence suggests that local influences, rather than tax measures, dominate in metropolitan rental property markets.³³

The other significant factor referred to in the Cabinet Minutes was the introduction of the Capital Gains Tax that would capture the gain on sale. This predated the introduction of the discount in 1999 which reduced the amount of capital gain that was captured, introducing the asymmetry discussed above.

However, we do acknowledge that the effects of removal of negative gearing will be different for the housing market compared to the rental market. Such a reform is likely to increase the cost of renting property as the deductibility currently subsidises cash flow; but would decrease competition for the purchase of housing, making it more affordable for new entrants to the housing market.

Recommendation 9

The capital gains tax discount and the availability of deductions for investment property losses which both benefit the wealthy should be reduced. Targeted relief should be available in respect of investments in affordable rental housing.

- a. *The CGT discount should be reduced across the board, and replaced by a notional indexation discount, based on the RBA target inflation rate of 3%.*

³¹ Reserve Bank of Australia: Statistical Tables: E7 Household Debt – Distribution; E4 Household Gearing – Distribution <http://www.rba.gov.au/statistics/tables/index.html#money-credit>

³² Blair Badcock & Marian Browett (1991) 'The responsiveness of the private rental sector in Australia to changes in commonwealth taxation policy', *Housing Studies*, 6:3, pp. 182-192

³³ Cabinet Submission 5247 - Negative gearing and depreciation provisions for income producing properties - Decisions 10233 and 10256/REV: 8 September 1987 NAA: A14039, 5247

Corporate income tax is one of the best ways to tax capital. It helps rebalance distorted economies, boosting broad-based economic growth and prosperity.

- b. *Deductions for interest on investment loans should only be allowed as a deduction to the extent that there is income from the investment with any balance included in the cost base when the property is sold.*
- c. *An exception to the quarantining rules should apply when the property is part of an approved affordable housing scheme designed to assist low income earners into housing. Such schemes would be designed to encourage new housing stock; the quality of the housing would need to meet minimum standards; rent would be at a benchmark below market rents and income tests would be applied to tenants.*

5. Business tax

5.1 Corporate tax must not be cut

The *Re:think* paper notes that the corporate tax burden is shared by the company, shareholders and workers. The Government should ensure that profits are taxed in the hands of either the company or the shareholders. The company must pay enough tax to capture tax on profits that are not distributed to shareholders, but where profits are distributed, our current imputation system ensures that the shareholders pay tax on the distributed amount.

The Australian Government must resist joining the global race to the bottom on corporate income tax. Corporate income tax is one of the best ways to tax capital. It helps rebalance distorted economies, boosting broad-based economic growth and prosperity. It boosts financial transparency and accountability and curbs criminal behaviour and rent-seeking. It stops Multinational Enterprises (MNEs) and their wealthy owners and shareholders from extracting wealth from societies by free-riding off taxpayer funded roads, education systems, courts and health services.³⁴

Profits are increasingly being made on capital, instead of labour, as technology has boosted the returns on capital.³⁵ Corporate income tax therefore is increasingly becoming a tax on the profits from capital.

There is no end to the process of lowering corporate income tax rates, as even if corporate income tax was to be abolished altogether, many MNEs would lobby for increasing payments to carry out their business activities within that jurisdiction. Globally, significant numbers of MNEs already are paid by governments (having negative tax rates) and continue to seek ways to increase the amount of money they can extract from governments. For example, 26 of the 288 Fortune 500 companies that have been consistently profitable between 2008 and 2012 had negative effective tax rates (meaning in net terms they were paid by governments) over some or all of that period. UnitingJustice Australia does not support the idea that for-profit businesses should be paid by other sections of the community to carry out their work.

³⁴ Tax Justice Network (2015) 'Ten Reasons to Defend the Corporation Tax', p. 3 <http://www.taxjustice.net/2015/03/18/new-report-ten-reasons-to-defend-the-corporate-income-tax/>

³⁵ *ibid.*, p. 5

Also, if the corporate income tax rate is reduced, it increases the incentives for wealthy individuals on the top marginal tax rate to have their income reclassified as corporate income and pay the corporate rate (at least on that part of their income caught under the top marginal rate). If the corporate income tax rate is zero or very low, then many wealthy individuals could leave their earnings inside the corporation and defer paying personal income tax on them indefinitely or until the corporation pays them a dividend at a date of their choosing, or perhaps never. This activity will then be used to pressure the Federal Government to cut the top marginal tax rate of individuals, further eroding Australia's tax base. Dealing effectively with the tax dodging games created by the gap in corporate income tax and personal income tax adds complexity to a tax system.³⁶

Corporate income tax largely falls on shareholders and owners of corporate capital, who are generally wealthier people. Unless the corporate income tax can be replaced by higher taxes on those same wealthy households, then corporate tax cuts make inequality worse.³⁷

As after-tax profits translate into political (and economic) power, corporate income tax logically acts as an essential tool for rebalancing political and economic power in our democracy.³⁸ As US tax expert Reuven Avi-Yonah has stated:

The corporate tax is justified as a means to control the excessive accumulation of power in the hands of corporate management, which is inconsistent with a properly functioning liberal democratic polity.³⁹

It is worth noting that inbound Foreign Direct Investment (FDI) by MNEs is attracted by macroeconomic stability and not just taxation policy.⁴⁰ That is, investment is attracted through a wide range of non-tax factors including:

a supportive legal and regulatory framework; skilled labour and labour market flexibility; well-developed infrastructure; and business opportunities tied to market size (with profitability of the domestic market tied to the purchasing power of the population, and foreign markets reached via an extensive network of trade agreements).⁴¹

Such factors become central drivers in FDI decisions by MNEs, alongside the accompanying tax policies of the host country. According to the OECD, it has been difficult to accurately estimate the FDI response to host country taxation due to the differing tax and non-tax factors in different countries around the globe.⁴²

According to the OECD there is broad agreement that a low host country tax level cannot compensate for a generally weak or unattractive FDI environment.⁴³ Poor infrastructure and other inadequate investment conditions will deter

³⁶ *ibid.*, p. 6

³⁷ *ibid.*

³⁸ *ibid.*, pp. 6-7

³⁹ *ibid.*, p. 27

⁴⁰ OECD (2007), 'Tax Effects on Foreign Direct Investment – Recent Evidence and Policy Analysis', OECD Tax Policy Studies – No. 17, OECD Publishing, DOI: 10.1787/9789264038387-en, p. 13

⁴¹ *Ibid.*

⁴² *ibid.*

⁴³ *ibid.*, p. 14

Lowering the corporate income tax rate is not an effective way to reduce tax avoidance by Multinational Enterprises.

FDI, regardless of the tax rate. A low tax rate cannot offset a negative non-tax investment environment. In countries where “higher corporate tax rates are matched by well-developed infrastructure, public services and other host country attributes attractive to business,”⁴⁴ tax competition from countries with low corporate tax rates not offering this positive investment environment has not been considered to be a threat to the tax base. Several large OECD countries with relatively high tax rates are very successful in attracting FDI, suggesting that market size, non-tax factors and taxable location-specific profits are particularly important in attracting FDI.⁴⁵

Lowering the corporate income tax rate is not an effective way to reduce tax avoidance by MNEs. The drivers for tax avoidance include the culture and ethics of the MNE, the risk of getting caught, the penalty if the MNE gets caught and the MNE’s sensitivity to reputational damage even if there is no penalty from the jurisdiction in which the tax avoidance takes place. In the case of Australia for example, lowering the corporate income tax rate from 30% to, say, 25% will not be much of a deterrent if an MNE engaged in tax avoidance believes the risk of getting caught has not increased. Also, such a reduction comes at a large cost to government revenue, as all the companies not engaged in tax avoidance will pay less tax. The OECD has pointed out that the main challenge is that MNEs can still shift taxable profits to a related subsidiary in a low-tax secrecy jurisdiction even if the host country’s corporate tax rate is low.⁴⁶

A study drawing on US national accounts and balance of payments statistics show that 55% of the \$650 billion of foreign US corporate profits made in 2013 were attributable to six secrecy jurisdictions: the Netherlands, Luxembourg, Bermuda, Ireland, Singapore and Switzerland.⁴⁷ It has also been estimated that US MNEs paid around 3% taxes on profits booked in those six main low-tax jurisdictions in 2011,⁴⁸ according to data from the US Bureau of Economic Analysis.⁴⁹ The US lowering its 35% statutory rate is not likely to offer much of an incentive to reduce tax avoidance by MNEs that are currently paying approximately 3% on their profits.

Similarly a report by the French Parliamentary Accounts Committee showed that “large enterprises on average pay 8% corporate tax”,⁵⁰ suggesting very substantial cuts in the corporate income tax rate would be necessary in France to erode the ability to profit from tax dodging.

44 *ibid.*

45 *ibid.*

46 *ibid.*, p. 16

47 Gabriel Zucman (Fall 2014), ‘Taxing across Borders: Tracking Personal Wealth and Corporate Profits’, *Journal of Economic Perspectives*, 28(4), <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.28.4.121>, p. 128

48 *ibid.*, p. 130

49 See Table II-D-I: Income Statement of Affiliates, Country by Account in ‘U.S. Direct Investment Abroad: Operations of US Parent Companies and Their Foreign Affiliates, Preliminary 2011 Statistics’, US Bureau of Economic Analysis, 2013, Available at: http://www.bea.gov/iTable/index_MNC.cfm

50 National Assembly, ‘Information Report: The Application of the Tax Measures contained in the Finance Acts’, The Commission of Finance, the Economy and General Budget Control, no. 3631, <http://www.assemblee-nationale.fr/13/rap-info/i3631.asp>

There are examples of jurisdictions with higher corporate income tax rates that are reported to have taken effective measures against MNEs tax avoidance. The Huffington Post reported that the Japanese corporate tax rate is in the range of 38-39%, much higher than the US, UK, and most other OECD countries.⁵¹ At the same time Japan has the Tax Haven Counter Measure Law, which applies to any Japanese subsidiary in a low tax jurisdiction with a tax rate of 20% or less. Under this law, the Japanese parent company is taxed on the undistributed earnings of these foreign subsidiaries.⁵² In this way, it was reported that Japanese companies cannot set up subsidiary companies to hold copyrights, patents, and leases in tax haven countries that then lease these back to the parent company for a fee and thereby lower their taxable profit in Japan. It was further reported that Japan also has the concept of ‘economic logic’ which is often used to deny special treatment to companies in tax havens. Under this concept, if the businesses could reasonably be carried on in Japan, the ‘economic logic’ of them being offshore is lacking, and is hence denied. There are a few exceptions made that in effect prohibit shell companies while allowing corporations to still set up legitimate businesses even in countries with lower corporate tax rates.⁵³

Recommendation 10

There should be no cuts to corporate tax.

5.2. Addressing tax avoidance practices

UnitingJustice believes that addressing cross-border tax avoidance is an important priority to reassure all tax payers that everyone will be held accountable to comply with Australian tax laws. We agree with the OECD that tax avoidance by multinational companies can “produce unintended and distortive effects on cross-border trade and investment” and that “it distorts competition and investment within each country by disadvantaging domestic players”.⁵⁴ Further multinational companies engaged in tax dodging “may profit from these opportunities and have unintended competitive advantages compared with other businesses, such as small and medium-sized enterprises, that operate mostly at domestic level.”⁵⁵

⁵¹ Dennis Howlett (16 July 2013), ‘Japan Shows How to Stop Corporate Tax Evasion Using Tax Havens’, Huffington Post Canada. The Huffington Post over simplifies the complexity of the Japanese corporate income tax system. See Ruud De Mooij and Ikuo Saito, ‘Japan’s Corporate Income Tax: facts, Issues and Reform Options’, IMF Working Paper WP/14/138, August 2014. The IMF paper states: “The Japanese CIT rate varies by firm size, income level and region (due to various local taxes), leading to a complex system of differing rates (Table 1). The overall CIT burden—adjusted for the deductibility of the local enterprise taxes and after the repeal of the special reconstruction tax in April 2014—ranges from 21 percent (for income of up to ¥4 million earned by small corporations located in an area applying the standard local tax rate) to almost 36.3 percent (for small corporations with income over ¥25 million in the Tokyo area). Large corporations with capital over ¥100 million—approximately 1 percent of all corporations in Japan—face an overall CIT rate of around 35.6 percent in the Tokyo area and 34.5 in areas applying the standard local rate.” However, the point remains that the CIT for Japan is higher than the vast majority of the OECD countries.

⁵² *ibid.*

⁵³ *ibid.*

⁵⁴ OECD (2013), ‘Addressing Base Erosion and Profit Shifting’, OECD Publishing, p. 39 http://www.oecd-ilibrary.org/taxation/addressing-base-erosion-and-profit-shifting_g9789264192744-en

⁵⁵ *ibid.*, p. 39

UnitingJustice is in complete agreement with the Treasurer, The Hon Joe Hockey, that “a tax cheat is a thief”⁵⁶ and that “They’re stealing from us and our community”.⁵⁷

The OECD has accepted:

There are a number of studies and data indicating that there is increased segregation between the location where actual business activities and investment take place and the location where the profits are reported for tax purposes. Actual business activities are generally identified through elements such as sales, workforce, payroll and fixed assets.⁵⁸

UnitingJustice supports the position of the G20 countries that “Profits should be taxed where the economic activities deriving the profits are performed and where value is created.”⁵⁹ It is a position that enjoys support amongst parts of the business community. For example, the CEO of ANZ, Mike Smith, was quoted in The Age as having told a B20 meeting “You have got to pay tax somewhere, and as long as it is fair and equitable to those countries in which you operate, everybody is generally happy.”⁶⁰

UnitingJustice agrees with the Australian Treasury that tax avoidance has wider impacts than just the loss of government revenue:

The implications of these integrity concerns go beyond the negative impact on the revenue. If unaddressed, they also reduce the efficiency, fairness and sustainability of the tax system.

When some taxpayers avoid or minimise their tax in a sustained way the tax burden eventually falls more heavily on other taxpayers.

Further, when some businesses avoid tax this leads to an unfair competitive advantage over businesses that do the right thing and don’t seek to avoid tax. If this is allowed to persist it will ultimately distort investment decisions.

A system with integrity is also a healthier system that breeds compliance. Tax avoidance can distort social and economic interactions, favouring those who can best afford to develop and implement the most effective tax strategy. This creates distrust and a reluctance to comply when others are not.⁶¹

Further, tax avoidance by MNEs can have impacts on the willingness of other tax payers to comply with their obligations under tax laws. An Australian Treasury official quoted in the press stated, “If multinationals are artificially using elaborate tax structure (sic) to reduce their tax then this might lead to the perception a fair

⁵⁶ The Hon Joe Hockey (8 October 2014), ‘The path to Brisbane – Setting up the G20 to make a difference’, speech in Washington DC

⁵⁷ ‘Hockey calls tax evasion companies ‘thieves’’, <http://www.skynews.com.au/business/business-national/2014/11/14/hockey-calls-tax-evasion-companies--thieves-.html>, 14 November 2014

⁵⁸ OECD (2013), op. cit., p. 20

⁵⁹ G20 Leaders’ Communique, Brisbane Summit, 15-16 November 2014, p. 2

⁶⁰ Nassim Khadem and James Eyers (11 November 2014), ‘Period of tax wars, PM adviser warns’, The Age

⁶¹ Australian Government Treasury (14 May 2013), ‘Addressing profit shifting through artificial loading of debt in Australia by multinationals’

share isn't being paid" and "If Australian taxpayers feel the system is not fair it erodes voluntary compliance, which could be a big deal".⁶²

Many MNEs pay the taxes they should in Australia. Further, no tax system will be free of leakage. Also, there will always be a need to assess the cost of enforcement action against the amount of lost tax revenue that will be recovered and the deterrent effect of the action. The latter point can be hard to assess, but it needs to be acknowledged that where a corporation is able to engage in tax avoidance without any counter-action being taken, it will encourage others to also engage in the same behaviour resulting in further loss of tax revenue. As stated by the ATO:

It is important to note the impact that tax avoidance can have on trust in the legitimacy of the tax system. If tax avoidance is left unchecked, the perception of unfairness has the potential to undermine the voluntary ethic in the broader tax system.⁶³

Further:

We are acutely aware that taking action against those who do not do the right thing is critical to maintaining community confidence in our fairness and integrity, and ultimately the sustainability of the system and willing participation in it.⁶⁴

Tax avoidance by MNEs should be of particular concern to Australia, as Australian tax revenue is more highly dependent on company income tax, as noted by the Australian Treasury in July 2013:

Australia's company income tax revenue as a proportion of GDP at 4.25 per cent is higher than the OECD average of just over 3 per cent. This is attributable to Australia's comparatively high levels of corporate sector profits, particularly from the resource sector, and effective enforcement, rather than reflecting the level of Australia's corporate tax rate, which is generally in line with OECD economies.

This greater reliance on corporate tax means that Australia is more vulnerable to corporate tax base erosion than other OECD countries. As such, it is important that policy and administration are vigilant in addressing risks as they are identified.⁶⁵

More needs to be done in the design of the tax system governing multinational corporations to reduce the opportunities for both tax avoidance and aggressive tax arrangements that are not in keeping with the intention of Australia's tax laws.

Multinational companies that gain the greatest benefit from tax avoidance in Australia will be foreign based multinationals operating in Australia, as any tax avoidance is likely to be of direct benefit to the shareholders or owners of the company. It is then likely that privately owned Australian based multinational corporations have the next highest incentive to avoid paying tax in Australia, as

⁶² Adam Creighton (5-6 July 2014), Global tax avoidance 'is sending wrong message', *The Weekend Australian*

⁶³ Andrew Mills (10 October 2014), 'I've looked at tax from both sides now', Melbourne, ATO Media Centre <https://www.ato.gov.au/Media-centre/Speeches/Other/I-ve-looked-at-tax-from-both-sides-now/>

⁶⁴ George Hitti (28 November 2014), Assistant Deputy Commissioner, Public Groups and International, ATO, 'Speech to the Institute of Public Accountants', Hunter Valley, ATO Media Centre

⁶⁵ Australian Government Treasury (July 2013), 'Risks to the Sustainability of Australia's Corporate Tax Base', Scoping Paper, p. 29

More needs to be done in the design of the tax system governing multinational corporations to reduce the opportunities for both tax avoidance and aggressive tax arrangements that are not in keeping with the intention of Australia's tax laws.

again any tax avoidance on corporate income tax is likely to be of benefit to the owners. Publicly listed Australian multinational companies will have the least incentive to tax dodge on corporate income tax, as their Australian shareholders will want fully franked dividends. However, such a deterrent will depend on the level of foreign shareholders in the company and further if shareholders are willing to forgo the benefit of fully franked dividends if it is offset by growth in share price, assuming the market rewards tax avoidance activities. Further, it will also depend on the level of retained earnings a public listed company maintains. The recent Luxembourg leaks scandal publicly demonstrated that it should not be assumed that ASX multinational companies are above question when it comes to arrangements to avoid corporate income tax. Thus, the imputation system can only be seen as a moderating influence on the incentives to tax dodge by ASX listed multinational companies. In the ATO's own assessment:

Cluster analysis suggests that international risk and low tax is not solely an issue for subsidiaries of foreign headquartered entities. Some foreign-headquartered entities are some of Australia's largest taxpayers while compliance history shows that large Australian public entities have significant international risks.⁶⁶

Of the 2,168 entities identified by the ATO as reporting more than \$100 million in total annual income and thus requiring disclosure of their tax information under the new Tax Laws Amendment Act ('the Corporate Transparency Population' or 'CTP') the number of entities with no tax liability has been increasing since 2007.⁶⁷ Australian-headquartered entities with nil tax payable increased to 29% in 2009 – the year in which the Global Financial Crisis impacts first manifested.⁶⁸ Foreign-headquartered entities with nil tax payable peaked at 34% in 2010 and the relative percentage remains higher than Australian-headquartered companies (in 2012 – 30% foreign-headquartered entities; 26% Australian head-quartered companies).⁶⁹

UnitingJustice notes that most Australian subsidiaries of foreign multinational corporations still claim to be domiciled in Australia when the new reality is that, in substance, they are not. Most are now controlled directly by the parent entity board.

There is a growing view that tax avoidance by MNEs is unacceptable, including amongst parts of the business community. For example, billionaire retailer Gerry Harvey said it is "morally wrong" for a company to avoid paying tax in its home country.⁷⁰ Harvey Norman had 15 stores in low-tax jurisdictions Ireland and Singapore. "We've got an opportunity to dodge a lot of tax but we don't because it's morally wrong," he said.⁷¹ Wesfarmers chief executive Richard Goyder called on Australian companies to "pay tax in the communities in which they operate".⁷²

⁶⁶ Australian Taxation Office (September 2013), 'Corporate Transparency Overview', p. 1

⁶⁷ *ibid.*, p. 8

⁶⁸ *ibid.*

⁶⁹ *ibid.*

⁷⁰ Heath Aston (2 October 2014), 'Corporate tax shirkers morally wrong: Harvey', *The Age*

⁷¹ *ibid.*

⁷² *ibid.*

As the President of the G20 in 2014, the Australian Government should continue to provide leadership on tackling tax dodging by Multinational Enterprises.

There is also growing recognition that tax avoidance by MNEs is an issue of reputational risk. The PricewaterhouseCoopers (PwC) Annual Global CEO survey conducted in 2012 questioned 1038 CEOs in 68 countries about tax strategy and corporate reputation and the responses indicated that CEOs felt that corporate taxation has become a matter of public interest.⁷³ According to a 2013 survey by ACE European Group (a multinational insurer), the biggest source of reputational risk for 21 per cent of the 650 risk managers in the ACE survey report was aggressive tax avoidance/tax evasion in the business environment. Similarly, a 2012 Thomson Reuters survey of CFOs at major Australian and New Zealand companies indicates that over half of the respondents (56 per cent) were concerned about reputational risk with regard to non-compliance with tax laws and its effect on shareholder value.⁷⁴

In short the research has shown large companies that operate in an industry that is sensitive to public perception and where stakeholders demand socially responsible behaviour are more likely to take a more conservative approach to tax compliance than companies that do not operate in a market with those characteristics.⁷⁵

The indicators of increased risk of MNE tax avoidance include increased use of subsidiaries in secrecy jurisdictions, business restructures like digital duplication of domestic businesses to shift profits to a low tax jurisdiction, pricing mismatches with large mark-ups ending up in an offshore service hub, creation of stateless income, tax arbitrage via hybrid entities/instruments, treaty abuse, the alienation of intangibles at 'non arms-length' prices, debt dumping into Australia and 'innovative' financing arrangements. These risks and tax avoidance strategies, by the ATO's experience and assessment, are far from limited to foreign technology MNEs, but extend to Australian MNEs and across industry and business sectors.

As the President of the G20 in 2014, the Australian Government should continue to provide leadership on tackling tax dodging by MNEs. UnitingJustice makes the following recommendations to address base erosion and profit shifting.

Recommendation 11

The Australian Government should:

- a. *work collaboratively with other tax authorities around the world to combat cross-border tax avoidance and tax evasion by multinational enterprises, and develop new international standards, and work towards a multilateral tax convention;*
- b. *require greater transparency from multinational corporations, including country-by-country reporting. Privately owned companies should not be exempted from the tax transparency measures contained in the Tax Laws Amendment (2013 Measures No. 2) Act;*
- c. *remove the ability of Australian subsidiaries of large foreign multinational companies to be able to claim exemption from the parts of the Corporation Act that require financial reporting;*

⁷³ Catriona Lavermicocca (2014), 'Role of reputation risk in tax decision making by large companies', paper presented at the 11th International Conference on Tax Administration, Australian School of Business, p. 12

⁷⁴ *ibid.*, p.13

⁷⁵ *ibid.*, p. 31

- d. ensure that the Australian Tax Office is adequately funded and staffed;
- e. implement measures that seek to penalise secrecy jurisdictions that refuse to provide effective information exchange to encourage them to comply with automatic information exchange and other global standards addressing money laundering, tax avoidance and tax evasion;
- f. introduce a requirement for a public register of the ultimate beneficial owners of companies, given the role shell companies and special purpose entities play in both tax dodging and many forms of illicit flows.⁷⁶ Australia should also support this becoming a global standard;
- g. introduce legislation, modelled on a combination of both US and UK legislation, to protect and reward private sector whistleblowers that expose tax evasion, tax avoidance and fraud against all levels of government in Australia. The reward should be a proportion of any funds recovered as a result of the information provided by the whistleblower;
- h. not introduce patent box rules similar to those in the UK or other European jurisdictions that serve to divert profits to low tax jurisdictions to limit the tax revenue they should otherwise be paying in higher tax countries as well as being likely to reduce Australian corporate tax revenue; and
- i. support moves to establish a United Nations International Taxation Office to strengthen cooperation in reducing international tax evasion and the capacity of all countries to establish and implement effective and equitable taxation regimes.

5.3 Super profits taxes for mining companies and banks

The Uniting Church, in keeping with its position on the redistribution of wealth, sees an important role for taxing some of our wealthiest sectors in order to raise the revenue needed to support the needs of the most vulnerable and to address the most pressing issues of our time, such as climate change and the health and education needs of future generations.

With respect to taxes to the mining sector, we are guided by the International Covenant on Economic, Social and Cultural Rights (ICESCR), which imposes obligations on member States pertaining to how a State determines its mineral tax structure:⁷⁷

The ideal of free human beings enjoying freedom from fear and want can only be achieved if conditions are created whereby everyone may enjoy his economic, social and cultural rights, as well as his civil and political rights (Preamble).

All peoples may, for their own ends, freely dispose of their natural wealth and resources without prejudice to any obligations arising out of international economic co-operation, based upon the principle of mutual benefit, and international

⁷⁶ Global Witness (March 2009), 'Undue Diligence. How banks do business with corrupt regimes', op cit, pp. 109-111

⁷⁷ United Nations High Commission for Human Rights (UNHCHR), International Covenant on Economic, Social and Cultural Rights, 1996. <http://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx>

Mining companies need to be aware that their profits depend on access to resources that form part of the common wealth of all Australians, with significant impacts on the economy and environment, and on Australia's First Peoples.

law. In no case may a people be deprived of its own means of subsistence (Article 1.2).

Nothing in the present Covenant may be interpreted as implying for any State, group or person any right to engage in activity or to perform any act aimed at the destruction of any of the rights or freedoms recognised herein, or at their limitation to a greater extent than is provided for in the present Covenant (Article 5.1).

Nothing in the present Covenant shall be interpreted as impairing the inherent right of all peoples to enjoy and utilise freely their natural wealth and resources (Article 25).

Australia's mining industry has been very profitable, enjoying a gross operating surplus of \$98 billion in the 2012-13 financial year. This figure represents a significant growth over the past decade, with the 2003-04 figure being a comparatively modest \$26 billion.⁷⁸ Mining companies need to be aware that their profits depend on access to resources that form part of the common wealth of all Australians, with significant impacts on the economy and environment, and on Australia's First Peoples. It is reasonable to assume, then, that the higher the profits, the greater the percentage of funds that should be given back to the community – an assumption not reflected in the current levels of company tax applicable to mining corporations.

The Henry Tax Review recognised that Australia has a rich source of non-renewable resources and noted that a uniform resource rent tax on the extraction of these natural resources administered by the Australian Government is an efficient means of raising revenue. Such a tax would provide a more consistent treatment of resource projects and promote more efficient investment and production outcomes. It would also ensure that the Australian community receives an appropriate return on its non-renewable resources.⁷⁹ The report states:

Through the Australian and State governments, the community own rights to non-renewable resources in Australia and should seek an appropriate return from these resources.⁸⁰

The mining boom that has driven up profits in this sector over the past decade, has offered very little benefit to ordinary Australians – many of whom were hit hard by the Global Financial Crisis (GFC) at a time when the mining boom was at its height. A tax on the mining industry is an essential tool for ensuring the even distribution of our national wealth. While some analysts are suggesting that this boom in terms of investment in mining is over,⁸¹ and that an opportunity to capitalise on profits was missed, we believe it is not too late to implement a tax at this stage, and that it is in fact imperative to do so sooner rather than later.

⁷⁸ Australian Bureau of Statistics (ABS), Australian System of National Accounts, cat. no. 5204, 2014, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/5204.O.55.010Main%20Features62012-13?opendocument&tabname=Summary&prodno=5204.O.55.010&issue=2012-13&num=&view>

⁷⁹ K. Henry et al (2010) op. cit., Chapter 6, <http://bit.ly/1LZcoGE>

⁸⁰ *ibid.*

⁸¹ G. Jericho (29 August 2014), 'The mining investment boom is over, so where to now?', The Guardian <http://www.theguardian.com/business/grogonomics/2014/aug/29/mining-investment-boom-is-over-so-where-to-now>

The mining boom that has driven up profits in this sector over the past decade, has offered very little benefit to ordinary Australians ... A tax on the mining industry is an essential tool for ensuring the even distribution of our national wealth.

The Labor Government attempted to first install a resource super-profits tax (RSPT), then a mineral resources rent tax (MRRT), but eventually neither succeeded or was long-lasting. The RSPT was to be a 40% tax on all profits above 6% of capital investment for all mining companies. It would have been spent on cutting company taxes and introducing tax breaks for small businesses. The MRRT would be limited to those iron ore and coal companies with profits in excess of \$50 million per annum. A 30% tax would be applied at the long term bond rate plus 7%.

While we maintained broad support for a tax on the mining industry in order to ensure the even distribution of our national wealth, the Uniting Church expressed concern about elements of the MRRT when it was introduced in 2011, particularly a concern that there is potential for exploitative agreements to continue between mining companies and the Aboriginal and Torres Strait Islander communities who own the land. The approach the current or a future government takes regarding a mining sector tax needs to be based on meaningful agreements with Aboriginal and Torres Strait Islander communities, encourage more sustainable and efficient resource sector investments, and generate revenue which can be used to develop social infrastructure and a more equitable and sustainable economy as a whole. Lessons should be drawn from the weaknesses in the MRRT as enacted in 2012, however the core approach of taxing rent-seeking in the extractive industries is sound and should be a part of a forward thinking and effective taxation system into the future. We recommend the introduction of a uniform and comprehensive resource rent tax.

UnitingJustice also recommends the introduction of a Financial Transactions Tax (FTT). The global financial crisis exposed the myth that the rapid growth in short-term financial transactions was beneficial. We now see that such changes in the financial sector have not benefited society. Substantial growth of financial market trading has led to a situation where the volume of financial transactions is now much higher than nominal world GDP. Also, the speed of financial transactions has increased which has led to a tendency for commodities, exchange rates and stocks to fluctuate without converging towards underlying trends. This has exacerbated trends of asset prices and increased price volatility. Short-term transactions encourage price runs and 'noise trading', both of which also contribute to instability in the global economy.⁸²

UnitingJustice has worked since 2010 with Jubilee Australia and others to explore the possibilities of a FTT, which we believe will contribute to shifting the balance of our economy away from the relentless pursuit of profit by a small minority and towards the common good. It will serve as a reminder to those who engage in risky financial transactions that their behaviour impacts upon us all. Support for the FTT was on the premise that it would help curb the excessive liquidity and volatility seen in markets since 1990, make markets more stable and reduce the risk of further financial crises, as well as raising revenue for necessary global public goods.⁸³

⁸² Jubilee Australia (2010), Submission to the IMF on Financial Sector Taxation, <http://www.jubileeaustralia.org/page/resources>

⁸³ *ibid.*

A Financial Transactions Tax could protect superannuation investors, improve the operation of Australia's capital markets, and provide a revenue of over \$1 billion a year. It would also discourage short-term speculation and encourage long-term investment in the real economy.

The campaign for a 'Robin Hood Tax', supported by UnitingJustice, recommended a specific FTT of just 0.05% on speculative financial transactions, which could raise hundreds of billions of dollars in revenue.⁸⁴ The revenue raised by this tax could be directed to domestic and global causes, such as alleviating poverty and assisting developing countries to adapt to the effects of climate change. The tax would also help to reduce volatility in financial markets, as it most strongly effects short term, speculative transactions. Demanding even this tiny social responsibility tax will contribute to shifting the balance of our economy away from the relentless pursuit of profit by a tiny minority and towards the common good. The Australia Institute argues that a FTT could protect superannuation investors, improve the operation of Australia's capital markets, and provide a revenue of over \$1 billion a year. It would also discourage short-term speculation and encourage long-term investment in the real economy.⁸⁵

We recommend that Treasury implement an FTT as a means of balancing our economy and of redistributing wealth to address the global issues such as climate change that will affect all Australians.

Recommendation 12

The Government should introduce a uniform and comprehensive resource rent tax.

Recommendation 13

The Government should support and cooperate with other countries in implementing a tax on international currency transactions as a means of raising revenue, reducing international financial turbulence and redistributing wealth to address the global issues such as poverty and climate change that will affect humanity in the years to come.

5.4 Pricing carbon

The threat of climate change will have environmental, social and economic consequences which will need to be addressed within the context of tax and redistribution for social outcomes. Unrestrained consumerism, encouraged as a necessary plank for economic growth, is inflicting serious damage on the biosphere, and the single-minded pursuit of corporations to deliver profit to their shareholders has resulted in the destruction of rivers and forests around the world and the devastation of Indigenous communities and cultures.

Australia must re-introduce a price on carbon to achieve real impact in mitigating climate change. For Australia to play its part in reducing emissions and working towards a less than 2°C change in temperature, the country's biggest polluters must reduce their emissions. A number of concerns have been raised regarding the likelihood that the Direct Action Plan (DAP) and its Emissions Reduction Fund (ERF) can achieve any more than a 5% reduction in emissions, given that it does not offer sufficient incentive for big polluters to reduce their emissions. Jemma Green from Curtin University writes that "non-participation will have limited financial consequence for rogue polluters" as there are no financial penalties

⁸⁴ UnitingJustice Australia (2010), Call for a Robin Hood Tax, <http://www.unitingjustice.org.au/just-and-sustainable-economy/news/item/518-call-for-robin-hood-tax>

⁸⁵ The Australia Institute (March 2015), Tobin tax would protect super savings and 'mum and dad' investors, <http://www.tai.org.au/content/tobin-tax-would-protect-super-savings-and-%E2%80%99mum-and-dad-investors%E2%80%99>

We are concerned about the threat of allowing high polluting industries to continue their business as usual. It is in the national interest that the big polluters are not given an easy way out. Policy settings must be such as to force change.

associated with continued pollution.⁸⁶ In addition, The Climate Institute undertook a detailed assessment of the ERF and concluded that the current policy cannot achieve Australia's obligations and emission commitments and that the ERF will not enable Australia to avoid dangerous climate change.⁸⁷

We are also concerned about the threat of allowing high polluting industries to continue their business as usual. It is in the national interest that the big polluters are not given an easy way out.⁸⁸ Policy settings must be such as to force change. The Uniting Church believes that in this case there can be no doubt that the future of the environment and human life must be understood as more important than the interests of big business. Figures have indicated that the Carbon Tax led to reduced greenhouse gas emissions, and that repealing the carbon tax reversed that trend.⁸⁹ When the Government announced replacing the legislated carbon tax with a taxpayer-funded ERF, the Climate Institute projected that over the next four years of forward estimates this change would have a negative fiscal impact of over \$15 billion. This could stretch out to \$40 billion by 2020 if the Government reached its pollution reduction targets and didn't amend its position of only purchasing Australian emission reductions.⁹⁰

Reform of Australia's tax system must address the major challenge that climate change poses. One way to do this will be to re-introduce a price on carbon, effectively a carbon tax. Other measures that will position Australia in a favourable economic position to mitigate and address climate change include policy that reduces reliance on large coal power stations, and that invests in renewable energy. The World Bank, the OECD and the Intergovernmental Panel on Climate Change (IPCC) all warn that the global economy needs to be decarbonised by the end of the century to avoid irreversible and severe climate change impacts,⁹¹ and that Australia should contribute to these efforts.

Pathways to Deep Decarbonisation in 2050 presents a feasible and low-cost pathway for Australia to transition to decarbonisation by 2050. The modelling in this report suggests that the transition needs to be well managed, but will not require significant changes to lifestyle or economic structure.⁹² In addition, modelling done by the Australian Conservation Foundation and the Australian Council of Trade Unions suggests that strong action on climate change (assuming a price on carbon and investment in renewable energy industries) would create

86 J. Green (25 April 2014), 'Direct Action Policy still leaves loopholes open for big polluters', The Conversation, <http://theconversation.com/direct-action-policy-still-leaves-loopholes-open-for-big-polluters-25918>

87 The Climate Institute (24 April 2014), Press Release: Emissions reduction fund no guarantee of emissions reductions, <http://www.climateinstitute.org.au/articles/media-releases/emissions-reduction-fund-no-guarantee-of-emissions-reductions.html>

88 P. Hannam & L. Cox (27 March 2015), 'Power sector to get special treatment under direct action', Sydney Morning Herald, <http://www.smh.com.au/federal-politics/political-news/power-sector-to-get-special-treatment-under-direct-action-20150327-1m8n4h.html>

89 Australian National Greenhouse Accounts, Quarterly Update September 2013 <http://www.environment.gov.au/climate-change/greenhouse-gas-measurement/publications>

90 The Climate Institute (2014), Policy Brief: Fiscal impact of Emission Reduction Fund and carbon laws repeal, p. 1 <http://www.climateinstitute.org.au/articles/publications/fiscal-impact-of-erf-and-carbon-laws-repeal-policy-brief.html>

91 The Climate Institute (March 2015), Submission: Climate Change Authority's Special Review on Australia's future emissions reductions targets, p. 1 <http://www.climateinstitute.org.au/articles/publications/submission-to-ccas-special-review.html>

92 Climateworks Australia (September 2014), Pathways to Deep Decarbonisation in 2050: How Australia can prosper in a low carbon world, <http://www.climateworksaustralia.org/project/current-project/pathways-deep-decarbonisation-2050-how-australia-can-prosper-low-carbon>

Consumption taxes are well known to be highly socially regressive, and increasing reliance on consumption tax will reduce the progressivity of the system.

770,000 more jobs by 2030 than weak action.⁹³ Climate change must be factored in to fiscal planning to ensure that the biggest polluters pay, Australia's overall emissions drop significantly, and we avoid the financial, social, health, education and welfare impacts of delaying action on climate change.

Recommendation 14

The Government should re-instate a price on carbon.

6. GST and indirect taxes

6.1 GST base not to be broadened and rate not to be increased

There have been a number of proposals to expand the GST, either by raising the rate above 10% or by broadening the base to include additional forms of consumption expenditure.⁹⁴ We do not support such proposals. Consumption taxes are regressive and in Australia are linked to greater inequalities.

Expanding the base or raising the rate from its current 10% level is expected to disproportionately reduce the disposable incomes of lower and middle income earners.⁹⁵

We recognise the role of a consumption tax in the tax mix, but the overall tax system must remain progressive. Consumption taxes are well known to be highly socially regressive, and increasing reliance on consumption tax will reduce the progressivity of the system unless changes are made to the income tax system to make that more progressive. It is also the case that consumption taxes often have the greatest incidence among those who can least afford the extra cost and who have less access to the kinds of social supports necessary to change personal behaviour, primarily low-income and marginalised communities. Even if complex systems are implemented to compensate low income households, the effect will likely be an exacerbation of regressive distributional effects, and losses of economic efficiency.⁹⁶

Some conventional economists believe that, in a perfectly competitive capital market, a tax on earnings and a tax on consumption are equivalent. But this is based on the treatment of the household as a single person, and ignores the fact that most adults live in a household including a couple. In a couple, individual earnings are observable, but we can't observe individual consumptions. Data on

⁹³ Australian Conservation Foundation and ACTU (2010), *Creating Jobs – Cutting Pollution: The Roadmap for a cleaner, stronger economy* <http://www.acfonline.org.au/resources/creating-jobs---cutting-pollution-roadmap-cleaner-stronger-economy>

⁹⁴ K. Henry (2009), *Australia's Future Tax System Review Panel*

⁹⁵ P. Apps & R. Rees (2013), 'Raise top tax rates, not the GST', *Australian Tax Forum*, Vol. 28, No. 3, <https://www.rse.anu.edu.au/media/43012/684.pdf>

⁹⁶ *ibid.*

the impact of consumption taxes suggest that the goods and services concerned, i.e. food, constitute a higher share of the expenditure of poorer households. Increasingly, changes to tax policy have shifted the burden away from the top income earners and towards the low and middle income earners. Measures that compensate low income households would effectively raise the marginal tax rates of middle income households, disproportionately impacting second earners in households, who tend to be working mothers.⁹⁷

Instead, there should be greater and more appropriate government support for the necessary preventative and rehabilitative health and social services needed in lower income communities. The GST also has the potential to contribute to inflation and erode the value of transfer payments, affecting the progressivity of the tax and transfer system overall. In addition, there is growing support for the idea of raising taxes for the highest earners (a progressive measure) rather than increasing the rate or base of the GST.⁹⁸

The GST is a regressive form of taxation and should not be increased. Increases to the rate or base would invariably deliver taxes that are less fair.

Recommendation 15

There should be no increase to the rate or base of GST.

6.2 Alcohol tax reform

Most consumption taxes aside from the GST are implemented where behaviour, if untaxed, would otherwise have a detrimental effect on society and/or the taxpayer. Where a consumption tax can be justified as addressing an externality, such as increased public health costs, the tax has an overall public benefit. Currently, however, revenue from such taxes is directed into the general taxation revenue pool, and is not automatically hypothecated to the specific social issue being addressed by the tax. Consumption taxes, such as those on alcohol, tobacco and gambling, must be structured so that revenue is allocated to programs and services aimed to reduce the prevalence of personally and socially-destructive behaviours.

In 2009, a meta-analysis was conducted of 112 peer reviewed studies on the effects of alcohol price and taxation levels on alcohol harms.⁹⁹ This study found that there was ‘overwhelming evidence of the effects of alcohol pricing on drinking’. Even small increases in the price of alcohol can have a significant impact on consumption and harm.¹⁰⁰

The World Health Organisation (WHO) has released a report entitled “Global status report on alcohol and health 2014” which examines the most effective ways to reduce alcohol related harm by examining the evidence from across the globe. They found that using taxation to reduce demand for alcoholic products,

⁹⁷ *ibid.*

⁹⁸ *ibid.*, and R. Denniss (2008), *op. cit.*

⁹⁹ A. C. Wagenaar, M. J. Salois, and K. A. Komro (2009), ‘Effects of beverage alcohol price and tax levels on drinking: a meta-analysis of 1003 estimates from 112 studies’, *Addiction* 104, pp. 179-190

¹⁰⁰ T. Babor, et al. (2010), *Alcohol: No Ordinary Commodity*, Oxford University Press, New York.

Consumption taxes, such as those on alcohol, tobacco and gambling, must be structured so that revenue is allocated to programs and services aimed to reduce the prevalence of personally and socially-destructive behaviours.

restricting the availability of alcohol and implementing bans on alcohol advertising are the “best buys” in reducing the harmful use of alcohol as they are highly cost effective in reducing the alcohol attributable deaths and disabilities across a community.¹⁰¹

The WHO report a large body of literature has found raising the price of alcohol to be effective in reducing harmful use of alcohol among drinkers in general as well as among youth; the same literature has documented that as the price of alcohol increases, alcohol-attributable morbidity and mortality decline.¹⁰²

Those most likely to abuse the use of alcohol are most likely to buy the drink that gives them the greatest alcohol content for their money. Thus it is desirable to structure the excise (tax) rate on alcoholic beverages so that the rate of excise increases with alcohol content, regardless of the type of alcohol.

Excise on alcohol is currently complex and lacks consistency.¹⁰³ For example the first 1.15% of alcohol content in beer is excise free, while there is no excise-free threshold for other beverages whose alcohol content does not exceed 10% by volume.¹⁰⁴ Wine is subject to a 29% wine equalization tax (WET), which is the rate applied to the revenue generated by wine sales regardless of alcohol content. Hence two bottles of wine may have the same alcohol content, but the cheaper one attracts less tax. As binge drinking is associated with cheap alcohol, from a public health point of view it would make sense to tax wine on its alcohol content. Draught beer attracts much less excise than packaged beer.¹⁰⁵

Drink	Excise per litre of pure alcohol (\$)
Draught beer not exceeding 3% alcohol content	7.03
Draught beer between 3% and 3.5% alcohol content	22.09
Draught beer with over 3.5% alcohol content	28.91
Other beer with less than 3% alcohol content	35.24
Other beer with over 3% alcohol content	41.06
Other beverages not exceeding 10% alcohol content	69.57
Brandy	64.96
Other spirits exceeding 10% alcohol content	

Table 2: Excise rates, per litre of alcohol, for beer and spirits in 2009 (\$) ¹⁰⁶

¹⁰¹ World Health Organisation (2014), ‘Global status report on alcohol and health 2014’, p. 19

¹⁰² *ibid.*, p. 80

¹⁰³ Richard Webb (11 January 2010), ‘Alcohol taxation reform: considerations and options’, Parliamentary Library, Research Paper, pp. 5-6

¹⁰⁴ *ibid.*, p. 2

¹⁰⁵ *ibid.*, p. 6

¹⁰⁶ *ibid.*, p. 3

The excise on a typical cask wine is only 5 cents per standard drink compared to 32 cents per standard drink of mid-strength beer, despite the much higher alcohol content of the wine (the wine alcohol content is typically 12.5% by volume compared to 3% of the beer).

Further, small beer and wine producers receive preferential tax treatment. Microbreweries producing less than 30,000 litres of beer annually can claim a concession in the form of a rebate of excise paid.¹⁰⁷ In the case of wine, eligible wineries can claim a rebate of the first \$500,000 of WET paid annually. The WET Rebate can be claimed by producers for up to \$1.7 million in domestic wholesale wine sales. The WET Rebate applies to all products subject to the WET.¹⁰⁸ The WET rebate paid in the 2013-2014 financial year was estimated at \$333 million.¹⁰⁹

The application of the WET favours some products over others creating price signals that drive consumers towards lower cost, higher alcohol content products. The WET is applied regardless of the amount of alcohol in the product or harms associated with consumption. This creates a distortion which results in larger volumes of cheap wine having favourable tax arrangements over quality wines. This also favours products taxed under the WET (including wine, cider and imitation spirits) over other alcohol products.¹¹⁰

The Foundation for Alcohol Research and Education has pointed out that 'spirit-like' products such as TriVoski or Divas Vodkat are examples of products that are produced to imitate spirits, particularly Vodka, but are actually 'wine based.'¹¹¹ Because these products are taxed under the WET and not at the higher spirits rate, they are able to be taxed as wine and sold at cheap prices. For example, a 750ml bottle of TriVoski containing 13 standard drinks can be purchased for \$9.95. This equates to 77 cents per standard drink. In 2014, two 700mls bottles of Divas Vodkat can be purchased for \$19.98, equating to 59 cents per standard drink.¹¹² These products are clearly marketed as spirits. Advertising on the Old Richmond Cellar website stated that "DIVAS is not a cheap Vodka. It has none of the crass stereotypical qualities of cheap Vodka, such as nasty chemical burn, etc... is 100% Australian made from real Australian wine grapes, allowing it to be priced as fortified wine, yet TASTES AND SMELLS EXACTLY LIKE TOP QUALITY VODKA!"¹¹³ The Australian Government must question whether the intention of the WET was to allow for a competitive advantage to be gained by these alcohol products.

This approach does not meet the needs of the community in reducing harms, nor does it meet the needs of the wine industry by supporting smaller producers and local quality wines.

¹⁰⁷ *ibid.*, p. 7

¹⁰⁸ The Allen Consulting Group (2011), 'Alcohol taxation reform starting with the Wine Equalisation Tax', Commissioned by The Foundation for Alcohol Research and Education

¹⁰⁹ Senate Economics Legislation Committee, Answers to Questions on Notice Treasury Portfolio Budget Estimates 2014, 3 June to 5 June 2014. Viewed on 3 February 2015 at http://www.aph.gov.au/-/media/Committees/economics_ctte/estimates/bud_1415/Treasury/answers/BET720_Edwards_supp_response.pdf

¹¹⁰ Foundation for Alcohol Research and Education (February 2015), '2015-2016 Pre-Budget Submission', p. 7

¹¹¹ P. Riordan (2014), '\$12 "vodka" sells out despite promotion being slammed by alcohol research group', Canberra Times, <http://www.canberratimes.com.au/act-news/12-vodka-sells-out-despite-promotion-being-slammed-by-alcoholresearch-group-20141106-11ht8e.html>

¹¹² Aussie Discount Liquor Discounts, viewed on 11 December 2014: <http://www.aussieliquor.com.au/showProduct/Spirits/Vodka/34432341213/DIVAS+V+KAT+NEW+700ML>

¹¹³ Old Richmond Cellars, viewed on 29 January 2015 at <http://www.olderichmondcellars.com/spirits/vodka/divas-v-kat/>

Considerable cost savings from the harms caused by alcohol can be made through reforming the alcohol taxation system.

As noted in the *Re:think* discussion paper (p. 160), in 2013-2014 excise and excise-equivalent customs duty on beer, spirits and other excisable beverages raised \$5.1 billion in tax revenue. WET revenue amounted to \$826 million in 2013-2014, net of producer rebates, which are typically around 25% of total WET. By comparison, the costs of the harms caused by alcohol in the community have been estimated to exceed \$14 billion, including costs to the health system, law enforcement, lost productivity in the workplace, and the pain, suffering and harm to drinkers and those around them.¹¹⁴ The Henry Review recommended that alcohol taxes should be set to address the spillover costs imposed on the community of alcohol abuse.

Considerable cost savings from the harms caused by alcohol can be made through reforming the alcohol taxation system as well as such reform serving to increase revenue. The alcohol taxation system was described by the Henry Review as 'incoherent'.¹¹⁵ Nine separate government reviews have recommended that the alcohol taxation system be reformed.¹¹⁶ Reforming the alcohol taxation system is supported by the public health sector, leading Australian economists and large segments of the alcohol industry. Despite this, the taxation system has remained largely unchanged, with the exception of the introduction of the alco-pop tax in 2009.¹¹⁷

Flat tax favours most risky drinks

The spirits industry often argues for a flat excise rate based on alcohol content as it would suit their self-interest. For example to collect the same total excise revenue as is currently collected the flat excise rate would need to be set at around \$23 per litre of alcohol, a drop of around \$44 per litre of alcohol for spirits.¹¹⁸

Preferred reform - progress excise rates by alcohol content

To avoid reducing excise on high alcohol content products a progressive excise system is needed that increases the rate of excise as the alcohol content increases. This position is supported by key health bodies including the Australian Medical Association, the Australian Drug Foundation, the Public Health Association of Australia, Cancer Council Victoria and VicHealth. This would make low alcohol products generally cheaper than beverages with high alcohol content. Low alcohol products are better from a public health point of view as it is harder to get drunk on them, the drinker getting full before getting as intoxicated. It is very difficult to die from an overdose of low strength beer – almost all alcohol poisonings are with spirits. Further, head and neck cancers are particularly associated with spirits drinking.

Such a change in the way alcohol excise is applied is not the whole solution to alcohol misuse in the community, but it is one important step in combating it.

¹¹⁴ M. Manning, C. Smith, and P. Mazerolle (2013), 'The societal costs of alcohol misuse in Australia', Trends and Issues in Crime and Criminal Justice, No. 454. Australian Institute of Criminology

¹¹⁵ Ken Henry, et. al. (2010) op. cit.

¹¹⁶ Reviews that have recommended a volumetric tax be applied to wine include: the 1995 Committee of Inquiry into the Wine Grape and Wine Industry; 2003 House of Representatives Standing Committee on Family and Community Affairs Inquiry into Substance Abuse; the 2006 Victorian Inquiry Into Strategies to Reduce Harmful Alcohol Consumption; the 2009 Australia's future tax system (Henry Review); the 2009 National Preventative Health Taskforce report on Preventing Alcohol Related Harms; the 2010 Victorian Inquiry into Strategies to Reduce Assaults in Public Places; the 2011 WA Education and Health Standing Committee Inquiry Into Alcohol; and the 2012 Australian National Preventive Health Agency inquiry exploring the public interest case for a minimum (floor) price for alcohol.

¹¹⁷ Foundation for Alcohol Research and Education, op. cit. p. 4

¹¹⁸ Richard Webb (2010), op. cit., p. 8

While a progressive tax on alcoholic products is not the simplest tax option (the simplest option would be a flat tax by alcohol content), it is the best option from a public health point of view.

The Foundation for Alcohol Research and Education has costed replacing the WET with a volumetric tax rate equivalent to the full strength draught beer rate, and implement a plan to gradually increase the tax applied until the taxation applied is set between the full strength packaged beer rate and spirits rate, making it consistent with other products of a similar alcohol content. Coupled with tightening the definition of products taxed under the WET to ensure that alcohol products which imitate spirits are taxed in the same way as spirits and removing cider from the WET and taxing cider using the current beer taxation arrangements, would generate an extra \$3.4 billion of revenue over the next four years.¹¹⁹ Abolishing the WET rebate would raise a further \$1.3 billion over four years.¹²⁰

Recommendation 16

There should be a progressive tax on alcoholic products, as the best public health solution to the health impacts of alcohol consumption.

¹¹⁹ Foundation for Alcohol Research and Education, op. cit., pp. 5-10

¹²⁰ *ibid.*, p. 5

JUNE 2015

UNITINGJUSTICE AUSTRALIA

The Uniting Church believes that taxation is a profoundly moral matter. It is the primary means for ensuring the equitable distribution of wealth and the raising of public money, our 'common wealth', in order that we may ensure that the basic needs of people in society are met.



Uniting**Justice**
AUSTRALIA

Prepared by

Aletia Dundas
Dr Helen Hodgson
Dr Mark Zirnsak

Contact

Rev. Elenie Poulos

National Director

UnitingJustice Australia

PO Box A2266

Sydney South NSW 1235

T 02 8267 4238

E ElenieP@nat.uca.org.au