



**SACOSS Submission to the SA Parliament Economic and
Finance Committee Taxation Review**

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Executive Summary

Adequate government revenue is necessary for funding the services which assist vulnerable and disadvantaged South Australians, including many of the services provided by the non-government sector. As the peak body for the non-government community services sector, SACOSS is also concerned to see a fair tax system, both as an ethical imperative and because the fairness of the tax system is crucial to maintaining social support for the system and the services it funds.

SACOSS is concerned that the state tax base, which as a percentage of Gross State Product is currently less than pre-GFC levels, is eroding and that some existing taxes are neither fair nor efficient. The possible areas of state taxation are limited and in addition to the GST dispersion from the federal government, six taxes (payroll tax, property conveyance duties, land tax, motor vehicle taxes, and taxes on gambling and insurance) make up the vast bulk of state revenue. The major options for tax reform are in property and payroll taxes, but there should also be consideration of additional taxation vehicles that might be available to the South Australian government outside of the six main existing taxation sources.

The current payroll tax system is not high by international standards, but it is perverse in that it exempts many businesses in ways which is economically inefficient and un-called for given that economic modelling suggests that the impost is passed through and ultimately rests on labour rather than business. A broader-based system (without the current threshold of \$600,000, but still with some concessions/exemptions for charities, hospitals, schools, etc) could reduce the rate of tax while still increasing state government revenue. SACOSS suggests that the South Australian government should investigate a move to a more broad-based payroll tax.

Property taxes as currently levied are problematic at a number of levels. Conveyance duties are unfair as they penalise those who move houses often, rather than taxing those who can most afford to pay property taxes. They also create economic costs from inefficient allocation of property resources. Current land taxes are also inequitable in that, although only levied on landlords, the costs are passed on to tenants meaning that the impact of the tax is felt by those who are often least able to afford it. The current arrangements also distort the property market by being biased toward small investors (because the rate of the tax increases with the cumulative value of property owned). While such a progressive tax scale is good in principle, the fact that it is levied on the cumulative-value of property owned (rather than on a property-by-property basis) is a disincentive for larger investors, with potential impacts on supply of rental properties and therefore also on rents paid.

Noting the recommendations of the Henry Report on taxation reform, SACOSS recommends that the SA government undertake and make public economic modeling on the effect of abolishing conveyance duties and replacing them with a broad-based land tax (which also applies to owner-occupied properties). This will allow for a more informed community debate, but SACOSS believes that any broad-based land tax regime would need to include concessional arrangements for low income households, including the ability to roll-forward tax liabilities.

In addition to these recommendations on payroll and property taxes, SACOSS is also recommending an investigation of a national system of gift and estate taxes, potentially with

a trust fund established to hold the revenue and contribute only the investment earnings to consolidated revenue.

All the recommendations are tentative in that they are designed to suggest directions for work and modeling, rather than be definitive proposals in their own right. However, SACOSS hopes they represent a contribution to an important debate, and one which it believes should be framed not around tax cuts or 'tax burdens', but around the services needed and the revenue base needed to sustain them

Introduction

SACOSS welcomes the opportunity to provide a submission to the Economic and Finance Committee's Taxation Review. As the peak non-government representative body for the health and community services sector in South Australia, SACOSS believes in justice, opportunity and shared wealth for all South Australians, and has a strong membership base representing a broad range of interests in the social services arena. SACOSS' core activities include analysing social policy and advocating on behalf of vulnerable and disadvantaged South Australians; providing independent information and commentary; and assisting the ongoing development of the health and community services sector.

SACOSS has a key interest in taxation issues because government revenue is necessary for funding services which assist vulnerable and disadvantaged South Australians, including many of the services provided by the social services sector. SACOSS wants a fair tax system, both as an ethical imperative and because the fairness of the tax system is crucial to maintaining social support for the system and the services its funds. In short, SACOSS wants to see a fair, well-functioning and long-term-sustainable taxation system which provides sufficient revenue to government to fund vital services.

SACOSS does not have the resources to commission detailed economic modeling that would be necessary to fully cost specific tax reform proposals and recommendations. This submission, therefore, concentrates on examining areas where there appears to be a likely capacity for the state's taxation system to be fruitfully and significantly reformed. SACOSS then makes recommendations that the state government should commission appropriate independent and objective analysis of reform options in these areas, followed by a broad community consultation on those options.

We recommend this approach because the broad and thoroughgoing review of the South Australian taxation system envisaged in the Committee's Terms of Reference has been a long time coming. It would also be unfortunate if groups with resources available to commission sophisticated statistical work (in support of measures designed to further their particular interests) were able to pre-empt or close-off discussion of options with potential to deliver significant benefits to the wider community. SACOSS also recommends community consultation on any particular reforms because a sustainable taxation system needs to have broad community understanding and acceptance of its overall fairness and efficiency.

Background

In 2010-11 (the latest year for which full ABS taxation statistics are available), 80% of total taxation revenue collected across Australia was collected in Commonwealth taxes. The states collected 16% and local government 4% (ABS, 2012). In these statistics the GST is defined as a Commonwealth tax since it is authorised and regulated under Commonwealth law, although in 2010-11 the Commonwealth distributed \$45.9m of "GST payments" to the State and Territory Governments (Treasury, 2011, p. 67). This represents just 12.8% of total taxation collected across Australia in that year, although it equates to over 80% of the total revenue collected by states and territories in their own "state" taxes. These figures point to a serious overall asymmetry of taxation power in the system.

For South Australia, receipts of GST payments from the Commonwealth Government are larger relative to the revenue raised from state taxes than the Australia-wide average. In 2010-11 South Australia received \$4,337m in GST payments from the Commonwealth (Treasury, 2011), a sum equivalent to 4.85% of South Australia's Gross State Product. Total revenue from SA state taxes was \$3,831m, or 4.29% of GSP. Table 1 sets out the equivalent figures for recent years, together with the 2012-13 estimates as set out in the Mid-Year Budget Review (Govt of SA, 2012).

Table 1: SA Taxation Revenue and GST Receipts

	Total State Tax Revenue		Receipts of GST Payments	
	\$m	% of GSP	\$m	% of GSP
2006-07	3250	4.56	3605	5.06
2007-08	3570	4.60	3914	5.05
2008-09	3537	4.42	3786	4.73
2009-10	3649	4.37	4055	4.86
2010-11	3831	4.29	4337	4.85
2011-12	3854	4.19	4239	4.61
2012-13 ^a	4047	4.23	4513	4.72
2013-14 ^b	4226	4.20	4627	4.60

- a. SA Government Budget forecasts (as revised in MYBR).
b. SA Government forward estimates (as revised in MYBR).

It can be seen that between 2007-8 and 2011-12, both total revenue from South Australian state taxes *and* South Australia's receipts of GST payments from the Commonwealth decreased as a percentage of Gross State Product. In 2007-8 these two sources of revenue combined represented some 9.6% of South Australian GSP. In 2011-12 the equivalent figure was 8.8%. Whilst the state government is expecting that the percent will rise to 8.95% in the current financial year, the forward estimates indicate little change in the coming years. That means that both SA state taxes and GST receipts will remain below eve-of-GFC levels as cuts to budget made to adapt to the GFC will not be recovered, bringing into question the long term ability of the government to maintain vital services. In many areas SACOSS members are unable to keep pace with the demand for services (ACOSS, 2012), and in areas like financial counselling where state government funding and service provision was severely cut during the GFC, service provision has been left in crisis (SACOSS, 2012a).

Accordingly, SACOSS believes the tax debate needs to be (re)cast as being about the need to fund government services rather than the focus on tax 'relief'. To put it bluntly (and admittedly somewhat over-simply), 'tax relief' equals cuts in services to vulnerable and disadvantaged people. In relation to the 6th Term of Reference of the present review, the sustainability of state and local taxes, **SACOSS therefore recommends an overall expansion of the state government's revenue base.** The above figures show that this is not a particularly radical proposal and *a first step would be to aim to restore revenue rates to pre-GFC levels.*

Revenue Sources

Six main sources account for the great bulk of South Australia's state taxation revenue. The figures for 2010-11, in order of importance are as follows:

- payroll tax raised \$951 million, (24.8% of total state tax revenue);
- stamp duties on property conveyances \$794 million (20.7 per cent);
- land tax \$575 million (15.0 per cent);
- motor vehicle taxes \$495 million (12.9 per cent);
- taxes on gambling \$404 million (10.5 per cent);
- taxes on insurance \$371 million (9.7%).

These six taxes accounted for some 94 per cent of total South Australian state tax revenue in that year, with the remaining "modest" \$241m raised through a range of relatively minor taxation vehicles. The figures for land tax revenue cited here could exaggerate the relative importance of land tax in providing "spending power" to the South Australian budget. Of the \$575 million of collections in 2010-11, \$223 million was in effect paid by the state government (defined inclusive of its various agencies) to itself. The bulk of this was paid by the Housing Trust which needs to be provided with monies from the outlays side of the budget. Land tax revenue collected from South Australia's private sector in 2010-11 totalled \$352 million, a figure lower than either gambling tax revenue raised, or taxes on insurance in South Australia.

Table 2 sets out the year-by-year picture for South Australian taxation revenues from its six principal sources of state tax receipts. The figures are presented in terms of percentages of South Australian Gross State Product, so as to provide for comparison between different years. Note that the land tax revenue figures in this table are for total land tax receipts: i.e. no attempt has been made to remove the element paid by the SA Housing Trust. This allows for maintenance of consistency between the figures in this table and data presented (or cited) by others based on the same official sources.

Table 2: Main Sources of South Australian State Taxation Revenue (% of GSP)

	Payroll Tax %	Conveyance Duty %	Land Tax %	Motor Vehicle Taxes - %	Taxes on Gambling %	Taxes on Insurance %
2006-07	1.13	1.01	0.47	0.55	0.59	0.42
2007-08	1.17	1.17	0.48	0.55	0.53	0.39
2008-09	1.14	0.90	0.64	0.55	0.51	0.41
2009-10	1.08	0.94	0.66	0.56	0.48	0.42
2010-11	1.06	0.89	0.64	0.55	0.45	0.42
2011-12	1.10	0.75	0.64	0.56	0.44	0.44
2012-13 ^a	1.16	0.76	0.60	0.56	0.45	0.44
2013-14 ^b	1.17	0.80	0.57	0.55	0.42	0.43

a & b: SA Government Budget forecasts (as revised in MYBR).¹

¹ The sum of the six entries in this Table will not match the entries in column 2 of Table 1 because of the presence in the latter of revenue from other State taxes (0.27 of GSP in 2010-11, for example) plus "rounding" effects.

From Table 2 it can be seen that:

- Motor vehicle taxes have been a remarkably stable source of taxation revenue in terms of revenue collected as a proportion of Gross State Product;
- Stamp duties on property conveyances have been the opposite, a fact recognised in the SA budget papers which highlighted the difficulties of forecasting revenue from this source with year-to-year changes since 1995-96 varying from 20.5% below average to 42.4% above (Government of SA, 2012, p 101);
- Revenue from taxes on gambling appear to have been trending downwards as a proportion of Gross State Product;
- The immediate sources of the reduction of SA state taxation revenue between 2007-08 and 2011-12 (see Table 1) can be identified as reductions in collections of conveyance duties, payroll taxes, and taxes on gambling as proportions of GSP, partially offset by rises in the relative importance of land tax and taxes on insurance;
- The state government's forward estimates have payroll tax collections in 2013-14 coming in at the same proportion of GSP as on the eve of the GFC in 2007-08, but conveyance duties revenue remaining well below pre-GFC levels.

This picture is by no means atypical in Australia as most state governments have a similar degree of reliance on the six sources of state tax revenue discussed above. In 2006-07 South Australia's State Government collected 92.8% of its total state tax revenue from those six sources compared with an average of 94.4% for Australia's six states and two territories aggregated together (Treasury, 2008, p 76). There are variations in the mix of the revenue raised from the six sources across the six states; in any one year the buoyancy of property market activity can vary markedly from one state to another. This makes for difficulties in interpreting the degree of reliance on conveyance duties in one state compared with another.

Tax Bases Available for State Government Use

The internationally agreed classification system for taxes used by the ABS and comparable statistical agencies recognise five basic types of tax by focusing on the "bases" on which the taxes are derived. The five areas are:

- taxes on income;
- employers' payroll taxes;
- taxes on property;
- taxes on the provision of goods and services; and
- taxes on the use of goods and performance of activities.

In this classification, government fees which are designed mainly to raise revenue are treated as taxes – hence motor vehicle registrations are motor vehicle taxes (and account for about 2/3 of that category). It is common to group the last two together and describe this as simply "taxes on goods and services". By considering taxes in these four categories, it is possible to begin to scope the options available for state tax reform.

The income base for taxation has been the preserve of the Commonwealth since 1941, while payroll tax was transferred from the Commonwealth to the states in 1971, while property based taxes are shared between state and local governments. State government access to the goods and services based taxes is constrained by s90 of the Australian Constitution which provides the Commonwealth with exclusive power to impose customs

and excise duties, with successive High Court rulings restricting the states from imposing taxes on the production, sale or distribution of goods (Henry, 2010, p. 676). This has effectively limited state governments to the services area, together with certain fees and stamp duties in the goods area which have not been ruled out by the High Court as contravening s90 (e.g. stamp duty on motor vehicle transfers).

States' access to taxes in the services area is, however, further constrained by the Commonwealth GST which taxes a broad base of services at a standard rate and according to standardised administrative arrangements. To add state taxes on top of this standard GST would interfere with the neutrality features of the GST as well as imposing a second layer of compliance and administration costs. The exception here is insurance enterprises. They are not subject to standard GST, but are input-taxed, which provides some scope for state taxation on insurance. The other exception is gambling which is subject to both GST and state gambling taxes.

From this it would appear that the major options for tax reform are in property and payroll taxes. The remainder of this submission focuses on the need for reform in both these areas, as well as providing some consideration of additional taxation vehicles that might be available outside of the six main existing taxation sources noted above. In doing this, SACOSS will be particularly concerned with the questions raised in the terms of reference around the fairness of the tax system, the impact on the cost of living and the sustainability of the revenue base to enable funding of vital services.

Reform of Payroll Tax

The Need for Reform of Payroll Tax

Payroll tax collections in Australia as a portion of GDP cannot easily be compared with equivalent statistics for the other developed countries. In most OECD countries (including the United States), legislation requires that employers remit to government a percentage of their payrolls, but these arrangements are not officially described as payroll taxation. Rather they are termed compulsory employer contributions to social security, or insurance contributions, and the like. However, OECD figures suggest if these figures are aggregated with revenues from what are explicitly called payroll taxes, Australia's usage of the payroll tax base is not high by OECD standards.

Despite this equivalence of tax burden to that applying in comparable overseas countries, payroll tax in Australia appears to be particularly unpopular. A study published by the Productivity Commission in 1997 noted:

“the almost universal unpopularity of payroll tax among the Australian community is probably attributable to the fact that it is actually called ‘payroll tax’. Virtually no other government in the world has fallen into that trap” (Productivity Commission, p198).

However, while changing the name of the tax and directing the proceeds to a well-supported use (for example, a Public Health or Primary School Contribution Scheme) might appear attractive, SACOSS is cautious about such hypothecation as it makes for populist politics which may undermine funding for vital services that happen to be less popular.

Notwithstanding the perceived unpopularity of the tax, the Henry Review found payroll taxes to be *potentially* very efficient taxes (2010, p 679), although there is a broad consensus

among professional economists that as presently structured and administered payroll taxes of all Australia's states and territories fall substantially short of achieving that potential.

Most importantly, Henry found that ultimately "labour tends to bear the burden of such taxes rather than capital owners" (2010, p 295). Further, Henry argued that when a payroll tax is administered in a way that exempts some employers from paying it:

"it is likely that all workers, not just those in business remitting payroll tax, bear the tax burden through lower wages. ... This means that workers in untaxed businesses receive lower incomes than they would have otherwise, effectively sharing the payroll tax burden" (2010, p 295).

A key issue here is payroll taxes pushing workers who would have been more productive working in the taxed sector into lower productivity jobs in the untaxed sector (because employment is easier). This is economically inefficient, holding down growth in average labour productivity across the state, and thereby holding back improvements in the material driving standards in the community. These effects are greater the higher the tax rate, so any relief in the rate would increase economic efficiency.

Given that the impost of payroll tax eventually falls to labour rather than capital, and that it creates economic inefficiencies, there is little reason to continue the distorting concession which exempts businesses below a certain size (currently a yearly payroll of \$600,000) from paying the tax. South Australia's State Treasury estimates that in 2010-11, if the state's payroll tax had been administered with zero threshold, but otherwise "as was" (i.e. the same published rate of tax, same exemptions for charities, hospitals, child care centres and schools etc), an additional \$439.4 million would have been raised - more than 46% of the total payroll tax revenue that was collected. Alternatively, this means that the rates of payroll tax could be cut to two-thirds of its current level, while still bringing in the same overall payroll taxation revenue.

The current rate of payroll tax is 4.95%, so such a revenue-neutral rate for a broader base tax would be around 3%. However, SACOSS suggests that a rate of 4% would provide the state government with much needed revenue to fund vital services while still representing a decrease in the burden on many businesses. Obviously this decrease is being 'paid for' in the immediate sense by the smaller businesses who were previously under the threshold. If the ultimate incidence of the tax is to be passed to labour, this is less of a social justice concern.

With the prescribed rate of employer superannuation contributions (which is in some senses a tax or at least a government impost on payrolls) now scheduled to rise from 9% to 12%, this might not be the ideal time for a state government to announce a shift to flat rate payroll tax system involving a minimum threshold. SACOSS suggests that community consideration of such options should be promoted now, rather than reform of payroll tax being simply left on the back-burner. The Henry Review's recommendation on payroll tax (Recommendation 57, p 301) was that it should "eventually" be replaced by a broader-based tax on "the value-add of labour". There should be some caution here because the superannuation scheme system already occupies some of the space otherwise available for payroll tax. But, there is an arguably bigger danger that the Henry Review's use of the word "eventually" will consign consideration of reform of taxation of the payroll base to somewhere even further back than the back burner.

Payroll Tax Recommendations

SACOSS suggests that the South Australian government should undertake a study of how the level of taxation of employers' payrolls in South Australia, broadly defined, compares with functionally equivalent arrangements in comparable economies. That study should be made public (together with other relevant facts and figures) to allow SACOSS and other community organisations and representative groups to engage in productive dialogue on the pros and cons of a phased shift away from the present narrowly-based structure to a more broad based payroll tax.

Reform of Property Taxes

Conveyance Duties

Tax collection from stamp duties on property conveyances is higher in Australia, relative to GDP, than in most other developed countries. It is twice the average of OECD countries (Henry, 2010, p. 253). Conveyance duties on residential properties are also highly inequitable. This is despite the fact that they operate on a progressive rate scale, levying a higher average rate of tax on transactions of houses of higher value. The inequity arises because the effective rate of tax imposed on house-owners differs according to the length of time spent in a property or the frequency of moving. If you move more often, you face a higher level of tax than people in otherwise similar financial circumstances who do not move as often (because you pay tax at each transaction). As the Henry Review (2010, p. 257) pointed out, this means that people who have to move because of changes in employment, expansion in the number of children, relationship breakdown or death of a partner will face higher rates of taxation regardless of their means. By adding to the cost of purchasing a home, conveyance duties also make it more difficult for renters to make the transition to being home-owners.

Apart from this unfairness imposed by current conveyance duties, such taxes also directly impact on the cost and quality of living. The Henry Review noted that for an Adelaide resident moving from one medium-valued home to another, the stamp duty payable almost doubles their overall moving costs. This has further economic consequences in making people less likely to move to take up better jobs and more likely to commute longer distances creating greater road congestion and pollution effects. It can also deter older Australians from moving to smaller homes or residences more conveniently located in terms of services and support. All of these things have economic costs to the community, and there are also direct price impacts where conveyance duties act to deter business relocation to cheaper or more efficient premises.

The unfairness and inefficiency of current conveyance duties, plus the volatility of the revenue source, suggest major problems with the current arrangements. Indeed, the main favourable thing about conveyance duties is that they are easy to collect, but as the Henry Review noted "the relative simplicity of stamp duty is not a strong justification for retaining the tax" (Henry, 2010, p. 252).

Land Taxes

In South Australia, as in Australia's other states and the ACT, a home-owner's principal place of residence is exempt from land tax. This comes at a considerable cost to the state

budget. If the land tax applicable to tenanted houses in South Australia had been applied to principal places of residence as well, an additional \$253m would have been raised in 2010-11 (Govt of SA, 2012, p. 171).

Apart from the revenue loss, to impose land tax on tenanted dwellings while exempting owner-occupied houses generates an inequity. After examining the economics of land tax, the Henry Review concluded that under existing arrangements “much of the burden of the tax is shifted [from landlords] to renters”, and that this represents an inequity “as renters generally have low incomes and wealth” (Henry, 2010, p. 261). SACOSS’ own analysis (2012b, p. 3-4) confirms that renters tend to have lower incomes and spend a higher proportion of their income on current housing than home-owners. Thus, a tax which exempts those more able to pay and instead imposes on lower income groups is a cause of deep concern.

There is also another way in which the existing land taxes impact detrimentally. South Australia’s land tax, like that of the other states, but unlike the ACT, imposes its progressive tax rate on aggregate holdings of taxable land in the state held by a taxpayer. In the ACT, the progressive rate scale is applied property-by-property. This means that in South Australia the average rate of tax paid is much higher where an individual or company owns a substantial number of houses that are rented out compared with the rate paid on owning just one rental property. Henry (2010, p. 262) cites figures indicating that a landlord owning 25 median homes in Adelaide would face a land tax equivalent to 31% of their gross rental receipts, whereas a landlord renting out just one such home would pay just 1% of their gross rental income. This differential between large and small investors is much greater for Adelaide than the other state capitals – with the average of state capitals being 18% and 1%.

While there is some attraction to a tax on those wealthy enough to afford multiple properties, there may be adverse side-effects as this tax differential is likely to be a major factor behind there being so little institutional investment in the private rental market. This in turn holds down supply and is one factor in driving rental price rises, which in Adelaide over the last five years have increased significantly above the general inflation rate (SACOSS, 2012b). If there was greater institutional investment in private rental housing, there may also be greater opportunities for private tenants who desire long term tenure, with the attendant social benefits of enhanced stability and attachment to community (Henry, 2010, p. 261-2). A shift in the structure of South Australia’s land tax towards the ACT approach of applying the tax scale on a property-by-property basis would likely cost very little in forgone revenue, while having the potential to deliver benefits to many of the state’s tenants.

Disused Building Tax

There is one final type of property tax which SACOSS would like to put forward for consideration. We have not been able to research and consult properly on this proposal, but it is driven by the fact that South Australia currently has homeless people and unaffordable housing while there is housing property sitting empty, as well as empty shops and commercial premises undermining the wealth and development of some areas (e.g. Port Adelaide). The proposal is simply that there be an escalating rate of land tax and council rates on buildings that are not being utilised after a set period (perhaps two years). In theory this would create a disincentive for leaving productive resources idle and create extra revenue for both state government and local councils.

Consideration would need to be given to how to avoid perverse impacts like causing further hardship to land/business owners forced to close in hard times, and it may prove impossible to define and enforce such a tax. However, given the travesty of poverty amid unused resources, SACOSS believes it is worth at least some consideration in the context of a review of state and local government taxes.

Property Tax Recommendations

The final report of the Henry Review made four recommendations in the conveyance duties and land taxes area (Recommendations 51 – 54). These amounted to recommending the abolition of conveyance duties, the replacement of at least a substantial part of the revenue foregone by broadening the base of state land taxes, and the implementation of transitional mechanisms to allow for this to be achieved in a manner that minimises disruption and maximises community acceptance.

SACOSS recommends that the South Australian government undertake and make public economic modeling to illustrate what the effect would be in this state of implementing recommendations 51 – 54 of the Henry Review under a small range of reformed land tax and transition scenarios. This modeling would then give an indication of the level and impact of any property-based tax so that organisations like SACOSS could make a proper assessment of such a proposal. At a minimum though, given SACOSS' concern for vulnerable and disadvantaged South Australians, such a tax should be progressive in nature (rate scale) and should have concessional arrangements available for owner-occupiers with low incomes. Such arrangements could include the ability for those with limited non-housing assets to roll-forward their annual land tax liabilities in the way that local government rates can currently be rolled forward.

Finally, the Committee should give some consideration to whether a disused building tax is worth further investigation.

Other Revenue Proposals

As noted earlier in this submission, apart from a consideration of the main existing taxes, a review of South Australian taxation should also ask whether there are potentially significant state revenue sources currently not being utilised. SACOSS views it as important to ask this question because if no serious steps are taken to reform the present arrangements for raising revenue from the six sources currently relied on, it is highly questionable whether there will be a sustainable tax base into the medium-term. Even if the tax base could be held together, this would be at the price of mounting inequities and mounting inefficiencies. To quote from the final report of the Henry review, "Increasing the rates of tax on existing state taxes would not be a sustainable way of funding services in the future" (2010, p 669). Henry's answer was to recommend further reliance on national taxes (2010, p 263, 268), but for a state government to become even more heavily reliant on transfers from the Commonwealth may have downsides for the state in terms of lack of flexibility, self-reliance and sovereignty.

If there is a potentially efficient tax base at present not being utilised, tapping into such a base appears to represent an option worth investigating. SACOSS believes that one such option would be levying taxes on transfers of wealth by bequest or gift.

Gift and Estate Taxes

Australia is one of only four member countries of the OECD to levy no taxes on transfers of wealth by bequest or gift. The other three are Mexico, the Slovak Republic and Canada (Henry, 2010, p 143). Until the second half of the 1970s, this tax base was in use in Australia and used by both the Commonwealth tier and the states. Queensland abolished its death duties in 1977, other states and the Commonwealth followed.

Chapter A3 of the final report of the Henry Review is devoted to a discussion of the possible introduction of a tax on bequests in Australia. The review committee recommended that “the Government should promote further study and community discussion of the options” (Henry, 2010, Recommendation 25, p 144) and stressed that “the Review is proposing consideration of a bequest tax that falls only on the largest estates or inheritances. The large majority of estates or inheritances would not be subject to tax” (Henry, 2010, p 141).

Given the experience of the “Queensland-led” dissolution of the previous estate tax regime, SACOSS believes that such a tax could not be introduced unilaterally by any one state government, but would require the agreement of all states, territories and the Commonwealth. However, there would be definite benefits for South Australia. On average, the member countries of the OECD raise 0.41 per cent of their total tax revenue from taxes on the transfer of wealth. If an Australian bequest tax was introduced through Commonwealth legislation under an agreement that distributed its full proceeds among the states according to the same formula as governs the distribution of GST revenue, a tax that raised a quantum of collections in line with that OECD average would deliver South Australia a sum roughly equivalent to 0.17 per cent of South Australia’s Gross State Product. That equates to almost \$154 million in 2011-12 terms. If the collection was in line with the United States’ “revenue-effort” from its wealth transfer taxes, those figures for South Australia would be approximately doubled. Even on the OECD-average basis, such a tax would appear to have the potential to provide a significant contribution towards allowing pressure to be taken off the six sources South Australia’s present tax system relies on.

A variation of this proposal, and one which may overcome some popular/populist opposition to “death duties”, would be for the State Government to establish a trust fund into which the estate tax revenue would be paid. The fund would have strict rules around investment – potentially limiting investment to blue-chip companies and not allowing a role in the management of those companies – but the income from those investments would be transferred to government revenue for current use. With the trust fund receiving the estate duties each year, over time a considerable investment would result and a substantial and stable revenue stream would be established. This is a fundraising structure which is used widely by charities to manage money raised from bequests, and has the advantage that the donor/tax payer would see their contribution as building something long-term for the state rather than the money being quickly dissipated on current budget lines.

Obviously, there would still be some objection to such estate duties, and careful consideration would be needed to ensure that there are no forced sales of family houses or farms. As a general principle SACOSS supports the view that it is easier and better to pay taxes when you are dead than when you are alive (and potentially struggling financially).

Estate Tax Recommendations

SACOSS recommends that the South Australian government undertakes economic modeling work to illustrate what the effects would be in South Australia of introducing a bequests tax along with the lines outlined in Chapter A3 of the Henry Review, as well as for a “trust” model outlined above. Once that modeling work was done and made public it would be possible for SACOSS, and other community organisations and representative groups in the state to engage in productive dialogue about this type of significant tax reform.

SACOSS’ preliminary consideration of this subject suggests that if this type of tax were to be introduced in Australia, it would not be sensible for it to be done on a basis that allows the rate of tax (or other parameters of the tax) to vary from state to state. It would be necessary for arrangements to be put in place akin to those governing the operation of Australia’s GST. However, it could be optional for each state as to whether they wished to establish a trust to hold the revenue, or transfer the income directly into consolidated revenue.

Conclusion

SACOSS often makes submissions to government, advocating for funding to be spent on services to vulnerable and disadvantaged South Australians, or for additional payments and concessions to be made available to those on low incomes. In doing this SACOSS is aware of the budget constraints on the government and so particularly welcomes an inquiry into state taxation if it will see an expansion of the tax base to set it on a long-term sustainable footing. It is important that the tax system is fair, efficient and sustainable, and as such, SACOSS has made a number of recommendations of further investigation in areas where it believes reform is needed.

No doubt the Committee will receive a number of submissions from interest groups arguing the unfairness of this or that tax impost on them, as well as calls for a reduction in the “tax burden” on business, on workers, or on all South Australians. SACOSS expects to be in the minority in calling for a stabilisation and expansion of the tax base. However, its job is to speak for the vulnerable and disadvantaged, with the firm belief that the biggest imposition on vulnerable and disadvantaged South Australians – and low income families more generally – is not state (or federal) taxes, but the lack of funding available for vital services. It is time to stop talking about tax cuts, and to have a thoughtful conversation about the services South Australians need and the revenue base needed to sustain them.

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