SACOSS

South Australian Council of Social Service

SACOSS Submission on the SA Government State Tax Review Discussion Paper

April 2015

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Executive Summary

As the peak non-government representative body for the health and community services sector in South Australia, SACOSS wants to see a fair, well-functioning and sustainable long-term- taxation system which provides sufficient revenue to government to fund vital services.

SACOSS welcomes the review of state taxation and in particular the objectives set out in the Discussion Paper. The objective of ensuring an adequate tax base to pay for vital services is imperative, although we also note the important role taxation can have in providing incentives for behavioural change and achieving public policy goals. We believe that these are important and legitimate objectives for the tax system, and accordingly in this submission, we put forward a number of proposals designed to promote behavioural change, as well as proposals to raise revenue more fairly.

List of SACOSS policy positions and recommendations

Framework/Objectives

SACOSS recommends that another benchmark in reviewing the tax system be a projection of the future revenue needed to fund future services.

Payroll Tax

SACOSS urges the state tax review not to heed business calls for payroll tax to be cut or support any proposal which would see less payroll tax collected.

SACOSS is fundamentally opposed to the proposal to remove payroll tax exemptions if the exemptions concerned are those applying to charities as any such proposal would simply result in cuts to services.

Conveyance Duties and Land Tax

SACOSS supports the replacement of conveyance duties with a broad-based land tax if there was:

- Ease of payment – monthly (or at least quarterly) billing;
- Protection for low income earners through adequate concessions and provisions for deferred payment and/or reverse mortgaging;
- Fair transition arrangements that do not leave householders out of pocket;
- Maintenance of progressive land tax rates;
- Maintenance of the current exemption from land taxes for land used for charitable purposes; and,
- Protection for community housing providers.

Gambling Taxes

SACOSS supports the proposal to tax online gambling based on place of consumption.

SACOSS proposes that clubs be given the option of either paying the same gambling tax rates as hotels, or adopting much greater harm minimisation measures and thus maintaining their current concessional tax rates.

Insurance Taxes
SACOSS supports the abolition or phasing out of existing insurance taxes.

Motor Vehicle Taxes
SACOSS would prefer to see taxes based more on vehicle usage than ownership and we reject the implied choice in the proposal to replace stamp duty with an increase in annual registration fee.

SACOSS believes that the state government should again look at a car park tax as a better targeted state transport tax, and that the revenue could be used to provide a cut to vehicle registration or stamp duty on vehicle sales.

Hypothecation
SACOSS is generally cautious about hypothecation and believes that while it is more difficult in the short term, it is necessary to make the arguments and garner support for a revenue base for government generally, not for specific payments for some services.

Estate Duties
SACOSS urges the SA government seek agreement from all states through COAG and/or as part of the national tax review for the introduction of state-based estate duties across the country. Such estate duties could be used to off-set less fair and less efficient taxes, or could be paid into a legacy fund to provide an ongoing revenue stream for government.

Disused Buildings and Vacant Land Tax
SACOSS believes that the SA government should look at imposing a surcharge or escalating rate of land tax on buildings or city/suburban land that is not being utilised after a set period (perhaps two years).

Introduction

SACOSS' tax concerns
As the peak non-government representative body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) believes in justice, opportunity and shared wealth for all South Australians. SACOSS' core activities include analysing social policy; 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 also 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.

This submission builds on themes and ideas which SACOSS put to the SA Parliamentary Inquiry on State Taxes in 2013 (SACOSS, 2013a). These themes were further developed in the lead up to the 2014 state election when our "Without Taxes, Vital Services Disappear" campaign (http://sacoss.org.au/fair-and-sustainable-tax-base) tried in a non-partisan way to raise issues of the inadequacy of the revenue base and the need for tax reform.

The NFP Health and Community Services Sector and Taxes
We want to be clear at the outset that while the key driver of our concern and commentary is the needs of vulnerable and disadvantaged South Australians, as a representative body we also argue for the concerns and joint interests of our member organisations and our sector.

The non-government health and community sector is a significant player in the South Australian economy. Based on data on from the Australian Charities and Not-for-Profit Commission (ACNC), SACOSS conservatively estimates the turnover of the sector in South Australia in 2012-13 was around $2.5bn, representing 2.7% of Gross State Product (and not counting the value contributed by volunteers but not counted in the statistics). While around 40% of our sector are small organisations (with turnover of under $250K p.a.), there were over 165 South Australian organisations on the ACNC database with a turnover of more than $1m per year. The largest organisations in the state have a turnover of over $100m p.a. and as a whole the sector employed over 31,000 South Australians.

While this is a significant economic presence in South Australia, it is important to appreciate the difference of our sector organisations from for-profit organisations. As charities, most of our sector organisations enjoy a range of tax concessions and exemptions and so do not pay a number of the taxes referred to in the Discussion Paper. Importantly though, the cost of any taxes that are paid can't be passed on to consumers or shareholders.

Accordingly, any proposal which sees community sector organisations paying more tax will result in a loss of services to the community, or alternatively, will require an increase in government funding to ensure the same level of servicing. Either way, any such proposal would undermine the goal of attaining adequate revenue for vital services. Further, given that the recipients of these services are among the most vulnerable and disadvantaged people in our community, any tax changes which result in service cuts would fail the fairness test.

In this context there are some proposals which may result in an increased tax burden on charities, and therefore cuts to services. These are:

- Possible removal of exemptions to payroll tax;
- Increased land taxes applying to community housing organisations;
- Move to a broad-based land tax if broadening that base included removing the exemption for land used for charitable purposes.

More will be said about these under the appropriate headings below, but for the reasons noted above, it is important to flag these issues up front as ones which would directly and immediately result in cuts to services for vulnerable and disadvantaged South Australians.

The Framework for the Review

In the context of these concerns, ***SACOSS welcomes the objectives of the tax system set out in the State Tax Review Discussion Paper*** (Govt of SA, 2015, p6), and commends the government leading the other states in having this review, and in being clear that it is not simply a tax-cutting exercise that would inevitably lead to service cuts.

SACOSS believes that given that Australia is a low tax jurisdiction (by OECD standards) and that most of the data in the Discussion Paper shows that South Australia is not a particularly high taxing state by comparison with other Australian jurisdictions (p25), revenue neutrality should be a minimum standard for proposals to be considered. In fact, given the historically low levels of current state revenue and the subsequent service cuts our sector has already seen, plus projected future increased demand and costs for health and other services, arguably a status quo result will not fulfil the criteria of providing sufficient revenue. In reality we already know there are a number of areas where it would be desirable for the state to have access to additional revenue so it could make early investments that prevent long term social issues emerging and that address real community needs (e.g. child protection, domestic violence, community health in an ageing population, youth unemployment, etc.) In this context, ***SACOSS recommends that another benchmark in reviewing the tax system be a projection of the future revenue needed to fund future services.***

SACOSS' other observation in relation to the otherwise welcome objectives of the tax system is that there is no consideration of the role of taxation in shaping social policy and society – of providing incentives for behavioural change. In fact, the goal of tax efficiency – defined as a tax which does not alter economic behaviour (p15) is contradictory to such a social role. This is a narrowly economistic definition of efficiency and such modeling of efficiency rarely takes into account important social considerations and economic externalities. For instance, a tax on a product of addiction may not change behaviour (because of the nature of addiction), but it is not clear that the narrow definition of efficiency and therefore overall social welfare (as per definition on p15) takes account of the social cost of that addiction or future government revenue required for health and support services.

Given this, and the fact that all taxation effects in some way effect the choices people, organisations and businesses make (at least potentially or in some cases), ***SACOSS believes that social impacts are as important as narrowly defined economic impacts, and that social and public policy goals are a legitimate and important objective for the tax system***. This should be recognised in the review of state taxation, and accordingly in this submission, SACOSS puts forward a number of proposals for tax changes designed to promote behavioural change (as well as raise revenue), notwithstanding the critique that they may be viewed as economically inefficient.

Response to Proposals

8.1 Payroll Tax

Despite payroll taxes in Australia not being particularly high by OECD standards (although comparisons are made difficult by other payroll-based remittances both here and overseas), payroll tax in Australia appears to be particularly unpopular. The Productivity Commission (1997, p198) noted that this was at least in part because of the name. However, far from being a "tax on employment" or a drain on business, as the Discussion Paper rightly notes (p 37), most studies suggest that the burden is ultimately borne by workers on lower wages or consumers through higher prices. Further, in terms of lower impacts on economic decision-making, the Henry Review found payroll taxes to be *potentially* very efficient taxes (2010, p 679).

Given this, and importantly that business also uses the infrastructure and services provided by state revenue, ***this state tax review should not heed business calls for payroll tax to be cut nor support any proposal which would see less payroll tax collected***. Indeed, it may be desirable to collect more payroll tax and replace other more harmful taxes.

The Discussion Paper floats four possibilities. SACOSS has no view on the third and fourth proposals (replacing payroll tax with a cash-flow tax or phasing out the tax-free threshold for big companies). We can see some logic in the first proposal of removing the tax-free threshold and applying the tax to small businesses. However, as the government has already recognised with the introduction of a rebate for employers just over the threshold, ***there may be a need to consider different and progressive scales for payroll tax*** – rather than simply one threshold and a flat rate. This would have the advantage of fairness and assistance to small businesses, but also recognises that big businesses, which would pay the top rate, also often make major demands on public infrastructure and services (e.g. roads, courts, workforce training).

If the payroll tax threshold was removed or a more progressive scale adopted, this would obviously result in greater revenue for the state government. At this stage SACOSS has no overall view as to whether this "windfall" would be best put to reducing rates of payroll tax or doing away with other taxes, but we suspect a combination of both may be a good outcome.

However, of the four payroll tax proposals in the Discussion Paper*, **SACOSS is fundamentally opposed to the second proposal of removing payroll tax exemptions if the exemptions concerned are those applying to charities**.* There is no commentary in the Discussion Paper as to what exemptions might be removed, and so we are only assuming that the proposal may relate to or include the exemption from payroll tax enjoyed by charities (including public benevolent institutions) under s48-52 of the *Payroll Tax Act*.

We understand that in some of the categories of exemption there may be suggestions of a market distortion where for-profit organisations are in competition with not-for-profit agencies, but we reject this argument in principle (that work for private profit should be treated the same as altruistic work for the public benefit). Moreover, in practice it is difficult to divide the work of charities in to areas of where there may be commercial competition and other areas of work, and in many instances there is no such competition. Either way, the payroll tax exemption provides an important recognition of the value of the social services provided by charities.

Any proposal to impose a new tax on charities (e.g. by removing the payroll tax exemption) will simply result in cuts to services. For the largest charities in our sector the imposition of payroll tax at current levels could equate to a cut of about $4m to aged care and community services (based on a $100m turnover and an industry average of 80% of expenses being payroll).

In terms of the criteria in the Discussion Paper, such tax-driven service cuts would undermine the goal of adequate revenue as more revenue will need to be raised to maintain the same level of services. Removing the exemption would also fail a fairness test if it results in cuts to services to the most vulnerable and disadvantaged.

8.2 Conveyance Duty

The major (or at least the most controversial) reform put forward in the Discussion Paper is the proposal to replace conveyance duties on real estate transactions with a broad-based land tax.

SACOSS does not have access to modelling as to whether, or to the extent which, conveyance duties are a barrier to business expansion and investment, or what would happen to prices if the duty was removed (i.e. questions in the Discussion Paper, p39). However, we accept in principle that conveyance duties are relatively inefficient taxes and we recognise the various unfair impacts in that they are based on transactions rather than capacity to pay. Thus, people who need to move house because of employment, family growth, relationship break-down or other reasons, pay more tax than sedentary households with potentially greater capacity to pay.

While SACOSS notes the NATSEM modelling cited in the Discussion Paper (p23) shows that the incidence of conveyance duties are relatively progressive, we suspect that land taxes are also relatively progressive. These are not modelled by NATSEM, but the ESL tax modelling would suggest this. Further, SACOSS also accepts the principle that land taxes are relatively efficient in market terms and are a more stable tax base for government.

Given this, SACOSS is open to the proposal to replace conveyance duties with a broad-based land tax, but subject to certain conditions that seek to protect the interests of vulnerable and disadvantaged people. The key conditions are:

- ***Ease of payment*** – monthly (or at least quarterly) billing to avoid a large annual "bill shock" which could cause hardship for those with tight household budgets;
- ***Protection for low income earners*** through:
    - adequate concessions available for, at a minimum, Centrelink benefit recipients and Commonwealth Seniors Health Card holders (as per the ESL concessions);
    - provision for deferred payment until sale or death, and/or the establishment of reverse mortgage/caveat arrangements for those who cannot pay.

  The bottom line must be that nobody is forced out of a home or put into hardship because of an annual land tax;
- ***Fair transition arrangements*** that do not leave householders out of pocket, although SACOSS has no view on the two transition arrangements proposed (p 43) or how this should be achieved. However, the bottom line of householders not being out of pocket is important both for fairness and for the popular acceptability of any change.
- ***Maintenance of progressive land tax rates*** as a flat tax (as per Discussion Paper, p 41) would impact disproportionately on low-mid income/wealth residential property owners. (That said, we recognise that a per-square-metre-based tax may also be progressive in effect, and believe that aggregation issues could be overcome without abandoning progressivity, so it is really the end result we are keen to see as a progressive tax).
- ***Maintenance of current exemption from land taxes for land used for charitable purposes*** otherwise, as per the argument above in relation to payroll tax, the imposition of a broad-based annual land tax would simply results in cuts to services to vulnerable and disadvantaged people.
- ***Protection for community housing providers*** as the significant stocks of land held by these community organisations are held for the benefit of vulnerable and disadvantaged people (who would in their own right qualify for concessions, but this is not available to the housing provider). If community housing providers are not exempted or compensated for a broad based land tax, many will simply cease to operate which will increase the risk of homelessness for those who rely on those housing organisations.

If these conditions were met, SACOSS would support the replacement of conveyance duties with a broad based land tax. We note that this position accords with the national statement on housing affordability published by a range of community welfare organisations (ACOSS et al, 2015, p 14).

A Conveyance Duty Alternative

If the proposed replacement of conveyance duties with a broad land tax is not adopted, an alternative measure that has been put to SACOSS is simply allowing for the option of paying conveyance duties in instalments – perhaps in 5 annual instalments (or completely on re-sale if this occurred within the repayment period). This would ameliorate (though not completely overcome) some of the barriers to transactions in that the initial cost impact would be spread over time. It would also reduce the volatility of the income stream for government for the same reason. Further, there would be no transition concern for community members who have just paid stamp duty, and no reason for those who do not plan to move to oppose the proposal as it would not affect them.

The major drawback of the proposal is that it would have a significant immediate impact on government revenue if people deferred payment of the conveyance duty. However, this could be financed by a government bond issue with the interest being added to the conveyance duty payment. We understand that there may be political sensitivities around such a debt financing model, but this ‘government’ debt is really a private debt *to* the government and is secured against real estate. It should be revenue neutral for the government (apart from increased handling costs).

In this context, it is a less radical change than the land tax proposal put forward and would yield some (but not all) of the benefits sought from the original proposal.

8.3 Land Tax

Apart from the comments above in relation to the proposal to replace conveyance duties with a broad-based land tax, SACOSS does not have the resources to assess, consult and comment on all the questions raised in the Discussion Paper section on land tax. However, we note that at the national level ACOSS and other community organisations are recommending levying a land tax on a per square metre basis (ACOSS et al, 2015, p15).

In any case, the bottom line for SACOSS is that any proposed tax reform should be measured for its impact on housing affordability and should not increase housing stress or housing unaffordability for low income earners.

8.4 Gambling Taxes

The issue of gambling taxes is fraught. SACOSS has long been concerned about government reliance on gambling taxes as a major contributor to revenue as it creates a disincentive to stronger regulation and harm prevention measures, and it means that a significant part of a major revenue stream is based on the misery of problem gamblers. This is an inherent problem in relying on so-called “sin” taxes for revenue, and unfortunately the “behavioural change” justification of such taxes is limited by the nature of gambling and addiction (which give rise to very inelastic demand curves).

However, any concessions or exemptions from gambling taxes are simply a bonus for the gambling industry and do nothing to assist problem gamblers.

With this starting point, we have considered the two gambling tax proposals in the Discussion Paper. ***SACOSS supports the proposal to tax online gambling based on place of consumption*** as we see no reason why online gambling should be given a bonus of potentially lower taxes than traditional gambling. While economists and the traditional gambling industry would see this in terms of competitive neutrality, our support is based more simply on the need to require online gambling providers to pay taxes to provide support and services to people and communities affected by problem gambling in SA.

Similarly, SACOSS has considered the second proposal – uniform gaming machine tax rates for clubs and hotels. We see no reason why clubs should continue to receive concessional rates on the current basis. We do not believe there is consistent evidence that gambling is managed more responsibly in clubs rather than hotels. The extent of the additional "opportunities and support for the community" which justifies the concession (Discussion Paper, p45) is, we suspect, often exaggerated and fails to take account of the harm done by gambling in the community. At best the extent of community support varies considerably from case to case and is a shaky foundation for a universal concession.

That said, in recognition that some clubs do provide important community services and amenities, and noting that the Discussion Paper (p46) suggests that the government may be required to provide offsetting support to clubs, SACOSS wishes to put an alternative proposal which would give clubs the option of maintaining concessional rates and not require any offsetting support from government.

SACOSS proposes that clubs be given the option of either paying the same gambling tax rates as hotels, or adopting much greater harm minimisation measures and maintaining their current concessional tax rates*.* Our proposal is that any club that implements a pre-commitment scheme and limits their gaming machines to $1 bet per button push would be entitled to the concessional tax rates, while those who wish to run high intensity gaming machines would pay the full gambling tax rate.

The major Productivity Commission Report on gambling recommended $1 bet limits (R11.1) citing clear research that most social gamblers bet well under a $1 per spin and the $1 bet limit would impact most on problem or at risk gamblers (Productivity Commission, 2010, Table 11.3). Accordingly, if clubs claim a significant revenue loss from such a cap they would effectively be admitting that a significant part of their revenue stream is based on problem gambling. In our view this forfeits any right to any concessional tax rate.

If this proposal is accepted, then there may be a case for extending concessional tax rates to hotels that wish to adopt pre-commitment and $1 bet limits. SACOSS would reserve final judgment until the scheme is trialled with clubs, but would be open to the possibility of expanding the initiative.

8.5 Insurance Taxes

The NATSEM modelling in the Discussion Paper (p 23) shows that Insurance Taxes are one of the most progressive state taxes in that they impact more on households who have greater income and/or wealth. However, while SACOSS generally supports progressive taxes ***we do not support the existing insurance taxes***. The figures showing a proportionately lesser impact on low income households are likely to be a product, at least in part, of chronic underinsurance of those households (SACOSS, 2013b). Given that insurance taxes are largely passed on to consumers via higher premiums, the taxes simply provide a further barrier to low income households maintaining insurance, thus leaving them more vulnerable to accident, misadventure and fate. This is not a good outcome for those households or the community generally (as underinsurance followed by crisis inevitably leads to demands for government assistance).

However, while opposing insurance taxes, SACOSS recognises that they are a significant contributor to state revenue which would need to be replaced if they were abolished or reduced – up to $435m (Govt of SA, 2015, p47). The Discussion Paper rightly seeks proposals for how to replace this revenue loss.

Since businesses would benefit from cheaper insurance following any abolition of insurance taxes, there should be some increase in existing business taxes to make up a part of the revenue shortfall. Given the relative efficiency of payroll tax, and the fact that SA has a lower payroll tax than most Australian jurisdictions, this is a reasonable place to look for an offsetting tax as it is replacing a relatively inefficient tax on business with a relatively efficient one.

SACOSS does not have the resources to model what proportion of any insurance tax shortfall should fall on business, but SACOSS recommends the state government model the impact on small businesses of replacing insurance taxes with removal of the payroll tax threshold.

Additionally, we make an argument below for the introduction of estate duties, and note in this context that our 2013 estimate of potential revenue from an estate tax, which had the same revenue imposition as the OECD average, would be $154m per year or double that if the US average was achieved.

Together these tax initiatives could go a long way to replacing the insurance taxes in a way which was more economically efficient and would not encourage household risk through underinsurance, and in a way which (given the incidence of estate duties) was also progressive.

8.6 Motor Vehicle Taxes

The proposals for Motor Vehicle tax reform floated (very tentatively) in the Discussion Paper would at first glance appear to reflect some of the directions of other reform proposals in moving to annual broad-based taxes. Specifically, the proposal of replacing stamp duty on motor vehicle transfers with increased annual registration fees appears to mirror the major proposal discussed above in relation to housing stamp duty and land taxes. However, there are several key differences which make this proposal problematic.

Transport (like housing) is a basic necessity and motor vehicle expenses specifically are a significant part of household consumption. Yet for health, environmental, safety, congestion and infrastructure-demand reasons, there is a public benefit to people using cars less. However, South Australia does not have a comprehensive public transport system (or almost any public transport in many parts of the state), and SACOSS is concerned that not having a car could lead to social isolation and lack of capacity to deal with emergencies or even more mundane activities.

In this context we are concerned that stamp duties add to the cost of purchase of vehicles. This can make it harder for low income households to afford a car and have access to transport. However, the same is true of annual registration fees which tax ownership rather than use (as registration costs the same whether you use the vehicle or not) and may discourage ownership completely where a vehicle is ‘under-utilised’ given the cost of leaving it ‘sitting in the garage’. SACOSS believes that it should be possible to encourage ownership (access) with less use. This contrasts to housing where there are less graded possibilities of use – generally houses are either occupied or not and use is usually a good thing.

Accordingly, SACOSS would prefer to see taxes based more on vehicle usage than ownership. While we accept the critique of vehicle sales stamp duties as inefficient and unfair, ***SACOSS rejects the implied choice in the proposal to replace stamp duty with an increase in annual registration fee***. The most obvious use-based taxes are federal taxes (e.g. fuel excise), but at the state level there are some possibilities which better recognise environmental and infrastructure costs. For instance replacing some part of the stamp duty on vehicle sales (or the annual registration fee) with a (non-hypothecated) congestion tax (e.g. a city car park tax) would replace a tax on ownership/transactions with a tax on particularly problematic vehicle usage.

Based on 1.3m South Australian registered vehicles (ABS, 2014) and a car park tax levied at the level of the previously proposed Transport Development Levy which was slated to raise about $30m p.a. in revenue (Govt of SA, 2014), SACOSS estimates that the introduction of a car park tax could allow for a reduction in vehicle registration of approximately $22 per vehicle per year. We have not been able to model a saving if it car park tax revenue was used to lower stamp duties.

The socio-economic impacts of such a proposal would need to be modelled, and it is obviously an offset not a replacement for one of the other vehicle taxes. However, the politics of using a car park/congestion tax to replace or reduce another tax is very different to the introduction of a new tax and ***SACOSS believes that the state government should again look at a car park tax as a better targeted state transport tax***.

Other Issues

In launching the State Tax Review, the Premier said that the government was “open to radical reform to our State taxation system” and that “Nothing is out of bounds, be it taxes, levies or concessions” (Weatherill, 2015). With this introduction, it is surprising that the otherwise thoughtful Discussion Paper is largely limited to consideration of changes to the major existing taxes and does not canvas more “radical reforms” or consider in any detail a range of other government levies or opportunities. However, with this broader mandate, SACOSS wishes to make two sets of comments:

- Firstly, we wish to raise some key issues in relation to special-purpose levies and hypothecation, and especially the Emergency Services Levy.
- Secondly, we wish to propose consideration of new taxes which, while they may not be as central to state revenue as the major taxes like payroll, land or vehicle taxes, nonetheless may contribute substantially to revenue and serve useful redistributive or public policy purposes.

Levies and Hypothecation

While it is probably true that no taxes are popular, some appear to be less well accepted than others. We noted above that the name "payroll tax" was a major contributor to its unpopularity. We also note that the Discussion Paper raises the possibility of linking land tax payments to particular expenditures (p43). Presumably such linking could involve simply naming a tax around a particular expenditure but with funding going to general revenue; or it could involve directing income from a particular tax to partially offset a particular expenditure (such as the Medicare level at the national level); or a full hypothecation where the money collected is specifically and separately controlled to fund particular programs (as per the Save the River Murray Levy).

However, SACOSS is cautious about all such approaches. The first would be largely dishonest, and the second creates sometimes unfulfillable expectations of services or false impressions as to what revenue is committed to a given expenditure. A clear South Australian example is the political backlash and demands in relation to the Emergency Services Levy (ESL) with some regional services refusing to work as a result of unmet expectations from the levy, and further calls for exemptions from the ESL for some emergency service workers.

Further, the amount of revenue collected by specific levies and hypothecated taxes limit government flexibility to use revenue for the priorities that it might want to pursue as well as undermining support for core taxation (which by definition is then used for less popular services). The result is populist politics which puts pressure on government to direct services to the general population rather than to those who are most in need of support and services.

SACOSS believes that while it is more difficult in the short term, it is necessary to make the arguments and garner support for a revenue base for government generally, not for specific payments for some services. As SACOSS' "Without taxes, vital service disappear" campaign has shown, this does not mean that popular services should not be highlighted, but it should be a broader argument about tax levels and collective goods, not a hypothecated regime which suggests that there are some good and some bad taxes.

Estate Duties

In his ground-breaking book, *Capital in the Twenty-First Century*, Thomas Piketty argues that inheritance is increasingly becoming an important economic flow in Europe (around 12-14% of annual income and potentially rising to 16-24% over the course of this century) (Piketty, 2014, p399). Picketty also argues that such inheritances are a key driver of inequality over time, and notes the historically important role that estate duties had in the middle of the last century.

In reviewing the book, Andrew Leigh (2014) argues that the Australian experience has been different with wages contributing proportionately more than wealth flows to national income, but that the trends Piketty observed may be more important in the future than in the past.

In this context it is significant that all Australian states had inheritance taxes until they were removed as a result of destructive interstate competition in the 1970s, leaving Australia as one of the few places in the world without any estate taxes.

Chapter A3 of the final report of the Henry Review was devoted to a discussion of the possible introduction of a tax on bequests in Australia. That report recommended that "the Government should promote further study and community discussion of the options" (Henry, 2010, Recommendation 25, p144) 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, p141).

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. As we noted in our submission to the 2013 SA parliamentary inquiry (SACOSS, 2013a, p10):

> 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.

An estate duty of this magnitude would not be a major revenue source for the SA government, but such revenue would not be insignificant and is justifiable on equity and economic efficiency grounds.

Below we present two options for the introduction of estate duties, but obviously there would be political hurdles to introducing such a tax. The first hurdle is in terms of interstate competitiveness, so ***SACOSS is recommending that in the first instance the SA government seeks agreement from all states through COAG and/or as part of the national tax review for the introduction of state-based estate duties across the country***.

The second obvious political problem is to secure popular support for the introduction of such a tax. This clearly will need good communication and needs to be seen in the context of a broader tax review. People may not support the establishment of a new tax on inheritances, but if the choice was between paying higher taxes now or after death the choice may be different. The choice and understanding of a significant tax-free threshold so that it was clear that an estate duty would not apply to all estates and bequests would also be important in gaining political acceptance.

SACOSS also believes that both of the options below would be more publicly palatable than a simple proposal for a new tax.

Off-set to insurance tax
In theory the revenue from estate duties could replace or reduce any inefficient or unfair tax, but in the context of the options put forward in the Discussion Paper we note the possibility that estate duties could offset a considerable proportion of the cost of reducing or removing insurance taxes. The section above on insurance taxes outlines the orders of magnitude of the potential offset, but the broader point is that an estate duty makes much more sense if it is tied directly to the reduction of a particular tax (in this case, leading to cheaper insurance).

Legacy Fund proposal
The second option for the introduction of an inheritance tax would be to establish an endowment or trust fund to which all inheritance taxes were paid (rather than going into the consolidated revenue). The funds could then be invested in secure non-government investments with only the income generated from the bequest capital going to the government as an annual revenue stream. This would make clear that people's inheritances were going to leave a lasting legacy for the community in the form of a revenue stream which would build over time.

To ensure public confidence that this money would be wisely used there would need to be strict rules around investment (for instance, investment only in blue-ribbon companies, and prohibiting government use ["raiding"] of the fund's capital [even for infrastructure].) The purpose of the fund would be solely to act as a rentier to generate a future revenue stream.

This is essentially the model that many charities successfully use to attract bequests and the same model could be applied at the state level. While it would initially make a minimal contribution to revenue as the revenue-earning capital would only build over time, the model may be more popular than a straight taxation into consolidated revenue and would be an important step to addressing long term revenue issues for the state.

Disused Buildings and Vacant Land

In our submission to the 2013 SA parliamentary inquiry on state taxes, SACOSS (2013a) also put forward for consideration a proposal for a new type of property tax. The proposal was driven by the fact that South Australia currently has too many homeless people and a housing affordability crisis. At the same time, there is housing property sitting empty, potential housing properties sitting undeveloped as well as countless empty shops and commercial premises undermining the wealth and development of some areas (e.g. Port Adelaide). The SACOSS proposal in 2013 was 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).*** The proposed tax or surcharge could also apply to vacant city and suburban land and in theory this would create a disincentive for leaving productive resources idle.

At the time we noted that we had not been able to research and consult properly on this proposal, and that 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 we noted that it may prove impossible to define and enforce such a tax. While we envisage that such a tax could take the form of a land tax surcharge, with lack of resources SACOSS has not been able to progress this proposal since raising it in its 2013 submission. However, we still believe that, given the travesty of poverty amid unused resources, it is clear that as a community we would be better served by having people in homes and occupants and traders in commercial premises. It is therefore worth consideration in the context of a review of state taxes.

Other Taxes

Finally, as noted above, despite the terms of reference of the tax review being quite broad, the Discussion Paper largely deals with the main existing taxes. As such, it does not give consideration to potential environmental taxes or other possible taxes such as hotel bed taxes. Similarly, there is only a short discussion of mining royalties and road usage taxes which are both largely ceded to the Commonwealth.

SACOSS recognises that there are difficulties with some of these taxes, including constraints imposed by Intergovernmental Agreements or that some are simply better levied at the federal level or require national agreement. However, in focusing simply on the taxes which the SA government can act on unilaterally now, the Discussion Paper limits the breadth of the review and may exclude from discussion key initiatives which may assist in building a fair and sustainable tax base. We think these options should be on the table.

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