

Tax and Expenditure Policies

SA State Election 2018



SACOSS

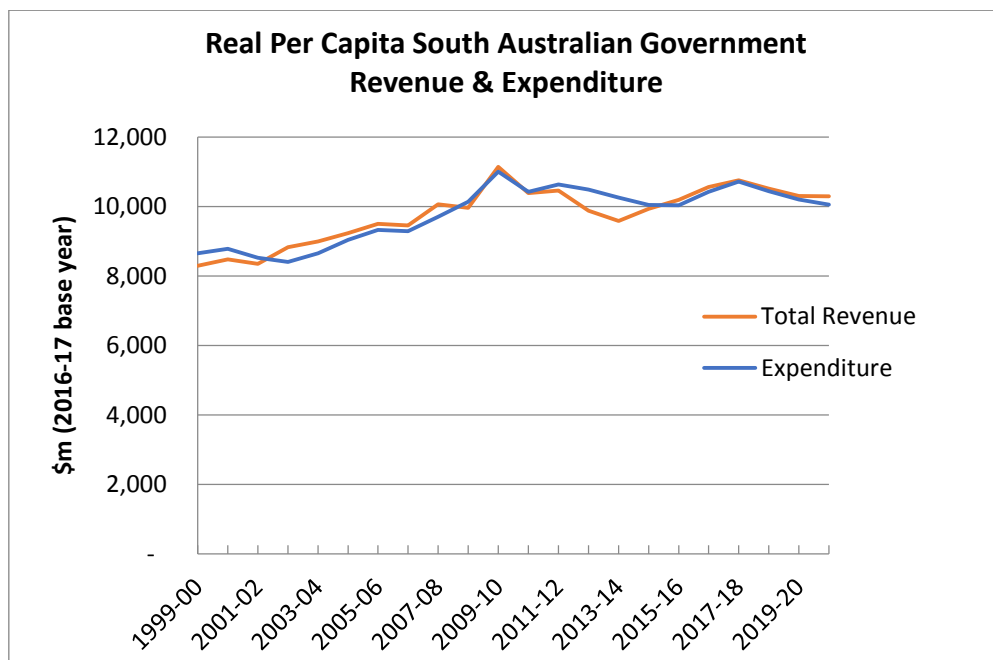
*South Australian Council
of Social Service*

State Taxes and Expenditure

Introduction

SACOSS has long advocated for a fair and sustainable state revenue base to fund vital public infrastructure and services. This is particularly important to vulnerable and disadvantaged people because they are more likely to require those supports and services and they have fewer options of being able to access them in the market.

In the lead-up to the 2014 South Australian election, SACOSS ran the “Without taxes, vital services disappear campaign” (SACOSS, 2014) to highlight the importance of an adequate state tax base, a theme which we repeated in our submission to the 2015 State Tax Review (SACOSS, 2015). These concerns remain important given that the last State Budget papers show decreases in both revenue and expenditure over the forward estimates in real terms.



Source: SACOSS calculations from Govt of SA (2017a,b), and ABS (2017)

Beyond the forward estimates, SACOSS is also concerned that while the digital transformation of our economy will bring many benefits, it may also undermine traditional state tax bases. For instance, the introduction of driverless cars may erode vehicle taxes (no drivers’ licences or fines, and fewer vehicle registrations) and the rise of the “gig economy” and conversion of employees to contractors hired by “app” could undermine the capacity for payroll taxes (SACOSS, 2017d).

More work is needed to identify all the implications of digital transformation for state taxes, but it is clear that in the long term we will need a mature debate about taxation to adapt taxes to new economic structures. This will not be easy. The record for state tax reform in recent years has been patchy (SACOSS, 2017a) and the recent defeat of the state bank tax highlights the difficulties of introducing new taxes. SACOSS' research also shows that the public has limited knowledge about state taxes, holds misconceptions about the level of taxation and wants contradictory things (lower taxes, more expenditure) (SACOSS, 2017b,c).

Unfortunately, tax debates in election periods tend to be toxic and quickly morph into populism, accusations and non-solutions. SACOSS' experience of the 2014 election was that no party wanted to commit to ensuring a sustainable revenue base for fear of being labelled as "high taxing" and alienating that majority of people who want to see lower taxes. However many politicians' responses also tried to avoid the issue by promising to reduce government waste (and therefore pay for services without increasing taxes) or by simply assuming that economic growth would bring more revenue and take care of the problem.

These views were also widely held by the public (SACOSS, 2017c), but while these ideas may be valid in particular cases, at the macro level they avoid rather than address the complex and difficult budget challenges. For instance:

- The promise to cut government waste to free-up money for services is often based on problematic assumptions of what is waste (which if followed may result in cuts to services and amenity), and in any case, the magnitude of the waste identified is not on a scale to address macro-economic pressures.¹
- Hoping economic growth will provide the necessary funds to pay for services is easier to say than achieve and there are several factors militating against this being the solution often thought (e.g. the scale of the growth required is rarely stated; Baumol's "cost disease" phenomenon,² and further government expenditure [eg. infrastructure] is often required to achieve growth).

Such policies, while potentially part of the picture, are not the answers they are often touted to be and SACOSS remains concerned about the revenue base and the ability to fund vital public infrastructure and services.

Given all of the above, for this election, SACOSS is putting forward only a very limited tax agenda with one key (and simple) policy proposal: that **all parties commit to not supporting or implementing any cut to health and community services in the first two years of government unless that cut has been announced as part of the election campaign.**

¹ For example, the O'Bahn, which was often cited by SACOSS survey respondents as an example of waste, accounted for just 0.3% of government expenditure in the relevant year, while politicians wages/"perks" account for just one-fifth of one percent of budget expenditure (SACOSS, 2017b).

² American economist William Baumol suggested that government's labour-intensive services can't make the productivity gains of more capital-intensive industries, but they face cost factors driven by those capital-intensive productivity gains [eg. higher wages] so the cost of public services will increase with economic growth (Baumol, 2012).

Policies

No Unannounced Cuts to Health and Community Services

This election comes against the backdrop of the defeat of the state bank tax in parliament and is already being framed by the Liberal Party's announced commitment to reduce "the tax burden" – including by cutting \$90m per year from the Emergency Services Levy (Marshall, 2017). SACOSS is also mindful of a history of new governments (e.g. Jeff Kennett in Victoria, Campbell Newman in Queensland, the current Federal government) taking office and implementing drastic cuts to health and community services, either because of different program priorities, political philosophy or because they have promised tax cuts and/or tight budget controls and the only way to achieve these ends is to cut services. But the concern about tax and revenue is not partisan. Our sector also remembers the South Australian government's 2010 Sustainable Budget Commission and the massive program cuts in the 2010-11 State Budget (SACOSS, 2010). And again, even without this history, government revenue and expenditure is forecast to decrease in real terms in the coming years.

The bottom line for SACOSS is that, whatever the merits of the particular tax and expenditure policies, we need to ensure that election promises do not undermine the ability of governments to provide services – particularly health and community services which are vital to vulnerable and disadvantaged people.

Accordingly, **SACOSS is calling on all parties to commit to no cuts to health and community services (in real terms) in the first two years of government unless those cuts have been announced as part of that party's election policy.**³ This would mean that any incoming government would not introduce such cuts, and the opposition and cross-bench would commit to opposing any such cuts should they be put forward. (Obviously though, if a particular program is grossly inefficient or not achieving its objectives it should be discontinued, but it should be replaced by a better service with no net cuts to the program area).

If candidates and parties at this election believe that there is no need for more revenue and that they really can fund necessary public expenditure from existing budgets or by cutting waste or through economic growth, they should have no trouble committing to the promise sought. But if parties or candidates are not prepared to commit to no un-announced cuts, then the public has reason to fear that service cuts are in the offing.

Overall SACOSS would obviously like to see increases in expenditure on health and community services, but we also respect the democratic process and recognise the right of governments to implement the policies they were elected on – which is why we are simply calling for no *unannounced* cuts. If parties wish/need to cut services to meet their economic objectives, they should announce these cuts in the election so that the public can weigh up the costs and benefits of their policies. It is a simple proposition and one that all parties should be able to commit to.

³ The scope of "health and community services" may be contested, but at a minimum we take it to mean aged care, community development, emergency relief, employment and training, housing, income support, legal services, health (including mental health, health promotion, dental services), and child and family support and other social services.

Other Tax and Expenditure Policies

Given the commentary above about the nature of tax debates during elections, SACOSS is not putting forward any of the revenue proposals which we have previously canvassed – despite the potential popularity of some of them (SACOSS, 2015, 2017a). However, in our Cost of Living Policy we have made one tax proposal (to use land tax discounts to provide incentives for residential landlords to make rental properties more energy efficient), and our Gambling Policy suggests that a discount on gaming tax could be used to help facilitate the introduction of \$1 bet limits on poker machines.

SACOSS' other policy packages at this election propose a number of policies requiring additional government expenditures, although most are modest in the context of the overall state budget.

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