



**Submission to the Government of South  
Australia**

**Regarding State Tax Review – Discussion Paper**

**Submission prepared by: Uniting Communities**

**10 Pitt Street, Adelaide, South Australia.**

**April 2015**

# State Tax Review

## Section 1: Summary of Uniting Communities roles and areas of interest

Uniting Communities works with South Australian citizens across metropolitan, regional and remote South Australia through more than 90 community service programs.

Our vision is : A compassionate, respectful and just community in which all people participate and flourish.

We are made up of a team of more than 1500 staff and volunteers who support and engage with more than 20,000 South Australians each year.

Recognising that people of all ages and backgrounds will come across challenges in their life, we offer professional and non-judgemental support for individuals and families.

Uniting Communities offers programs for:

- Older People
- Younger People
- Families & Children
- Housing & Crisis Support
- Mental Health & Well-being
- People with Disabilities
- Carers
- Financial & Legal Services.

Of particular relevance to this Inquiry is our experience as a long term provider of a range of services to lower income and disadvantaged individuals and their families. We are also a major employer, both in Adelaide and regional locations around South Australia.

Uniting Communities is keenly interested in tax debates because they have significant impact on the services that we seek to provide and, in particular, on the many low and modest income households and individuals for whom State services are of crucial importance, and for whom the impact of generally regressive State taxes is considerable.

Cost of living pressures have been rising steadily for significant numbers of South Australian households over recent years, with financial counsellors from Uniting Communities now seeing clients who are spending more than 60% of their disposable income on housing plus utility costs alone. These costs of living pressures are well documented and are significant. We opine that there are many households who are simply unable to afford further taxes and so the incidence of State taxation is of critical importance. The adequacy of the State Tax Base is also crucial to provide basic services, particularly health, education, policing and safety services that benefit all members of the South Australian community.

## Section 2. Principles of Taxation

We applaud the State Government for the conciseness of the discussion paper and the overview paper as well, and base most of the following comments on the main State Tax Reform Options considered in the discussion paper. We also recognise and commend the diligence and thoughtfulness of the underlying work that has been undertaken by many people to develop this thinking, with leadership from the Treasurer and Under Treasurer being substantial.

The principles outlined in the State Government Taxation Discussion Paper, are generally supported, notably the importance of:

- Adequacy of the tax base to meet the essential responsibilities of the State Government
- Equity – we strongly support equity in taxation and recognise that State Government taxes in Australia have tended to become more regressive taxes, whilst Federal Government responsibilities align more closely with the more progressive taxes.

There is another principle for the discussion paper which we support, although our interpretation and meaning of this principle is a little different to that presented in the discussion paper.

- Efficiency: we recognise efficiency to mean the cost effectiveness of collection of tax and so an efficient tax is one where the costs of collecting are small, whereas the discussion paper defines efficiency as not influencing behaviour, which is also stated as taxation being non-distortionary .

We support the notion of taxes being non-distortionary except where the impacts from any ‘distortion’ are likely to counter applications of the principles of adequacy, equity and efficiency – as we define it.

We propose a fourth principle to State Taxation, which is to recognise that taxation can be used for behavioural purposes, that is to influence the behaviour both of individuals as well as communities and businesses. Historically, for example, Federal governments have used innovation and research tax concessions to encourage investment in R&D, a key driver of future economic growth, tax concessions for arts and film making have also sought to proactively influence behaviour. Public health also relies on taxation as one means of influencing behaviour, though tobacco and alcohol taxation, for example.

Indeed, the idea of “libertarian Paternalism<sup>1</sup>” is gaining increasing attention from policy makers as a measure to encourage constructive behaviour change by individuals, where a

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<sup>1</sup> Richard H. Thaler, Cass R. Sunstein Nudge: Improving Decisions about Health, Wealth, and Happiness, Yale University Press, 2008

range of measures are applied to ‘nudge’ consumers to choose healthier behaviour through their purchasing decisions.

We strongly believe that there is a role for taxation in influencing behaviour in a manner that is generally constructive and for the public good, for example by promoting the increased consumption of ‘merit goods’ at community level and healthier lifestyle at individual level.

We also make the observation that taxation is a significant part of fiscal policy and while fiscal policy generally is more in the domain of the Federal Government, there are some State Government opportunities to exercise aspects of fiscal policy, and in particular, to use taxation as a means of providing incentives for certain industries or certain behaviours which are considered likely to be desirable for South Australia’s future. For example, incentives for film making, mineral processing and agricultural innovation, have been areas where State Government can use some State tax ‘levers’ for likely positive future State outcomes.

We note that the basic national accounts identity from macroeconomic policy defines income:

$$Y = C+(I-S)+(G-T)$$

Where Y is State domestic Product, in this instance; C, consumption; I, investment; S, savings; G, government expenditure; T, taxation.

Taxation and government spending have significant impacts on the State Domestic Product. We do not want the State Tax Debate to fail to take into account the importance of some application of fiscal policy being applied through tax measures.

We summarise the principles for tax policy for South Australia as being

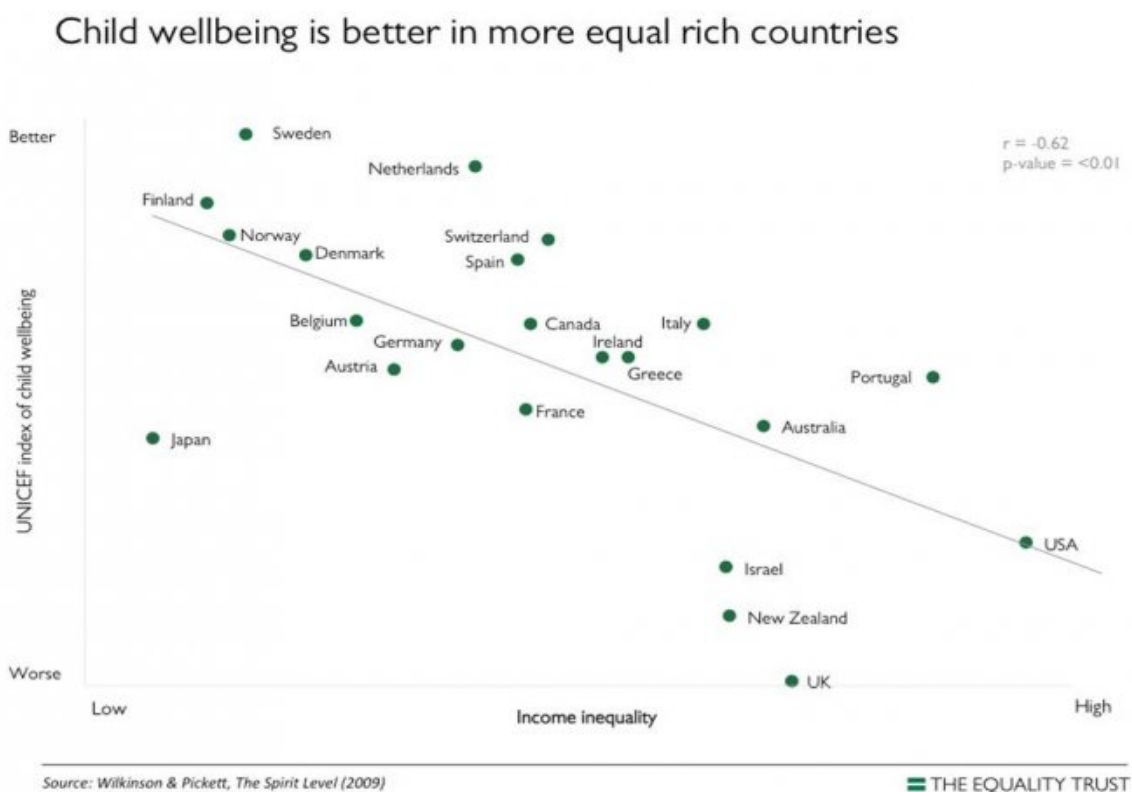
- Adequacy
- Equity
- Efficiency
- Non distortionary, except for
- Influencing constructive behaviour change both for business as well as for individuals

### Section 3: Social and Economic Context of this Review

It is important to put taxation issues into a broader social and economic setting since they are not isolated from a wide range of interrelated social, economic and environmental issues.

The book, *Spiritlevel*<sup>2</sup> includes the finding that more equal countries have better social, environmental and economic outcomes. So taxation approaches that improve equity / fairness, improve all key aspects of state development. The following three graphs from *Spiritlevel* provide some of the evidence behind the finding that ‘equity matters.’ In figure 1, the UNICEF index of child wellbeing is plotted against income inequality (measured by Gini Coefficient) for a large number of countries and demonstrates that more equal countries have better child wellbeing. Policy responses to the State’s long running and current concerns with child protection need to recognise the importance of promoting a more equal society, along with other more immediate and specific measures.

Figure 1. Relationship between equality and child well-being

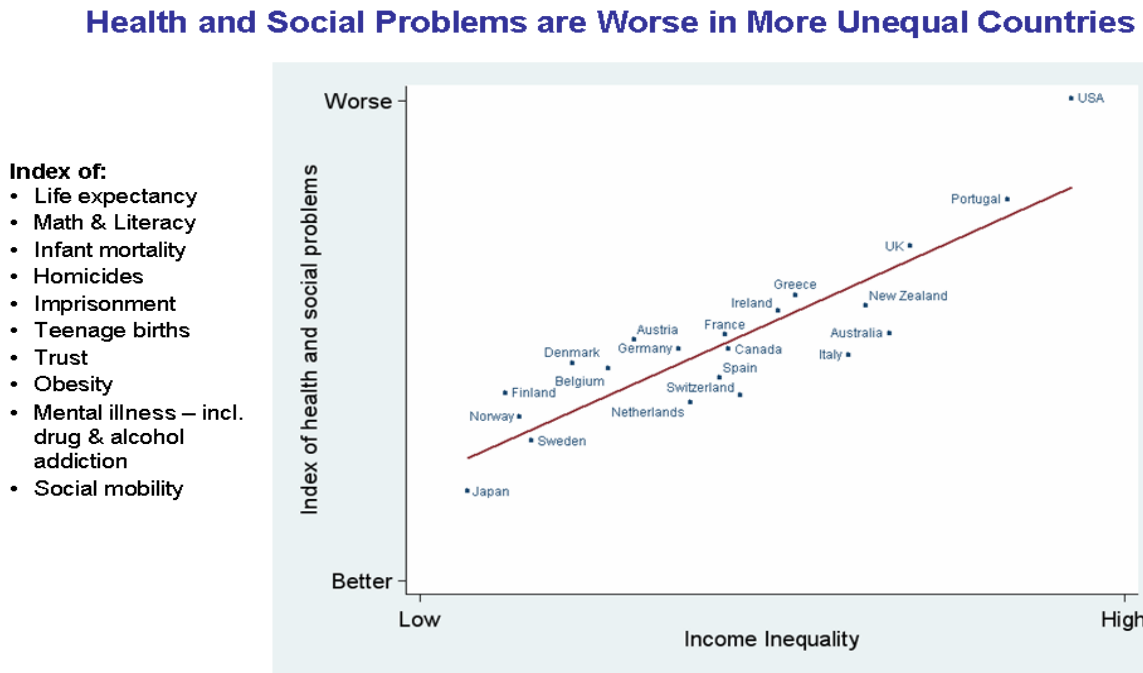


Source: <http://www.equalitytrust.org.uk/resources/our-publications/spirit-level-slides>

In figure 2, a similar story is told, with more unequal societies having worse health and social problems.

<sup>2</sup> Wilkinson and Pickett, *The Spirit Level*, Penguin, 2009

Figure 2: Equity relationship with Health and Social Problems



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

[www.equalitytrust.org.uk](http://www.equalitytrust.org.uk)

Figure 3: Equity and Innovation

### More equal societies are more innovative



[www.equalitytrust.org.uk](http://www.equalitytrust.org.uk)

Figure 3 gives an important economic development insight, namely that more equal societies are more innovative, as measured by patents per capita. Innovation is a key driver of economics growth.

### Income

We opine that understanding household income is a crucial consideration in tax debates, and particularly the incidence of any taxation changes. There are a number of measures used to summarise incomes of Australian households. Chart 1 provides various measures for Australian States.

**Chart 1. Weekly Income Measures, Australian States and Australia, 2011**

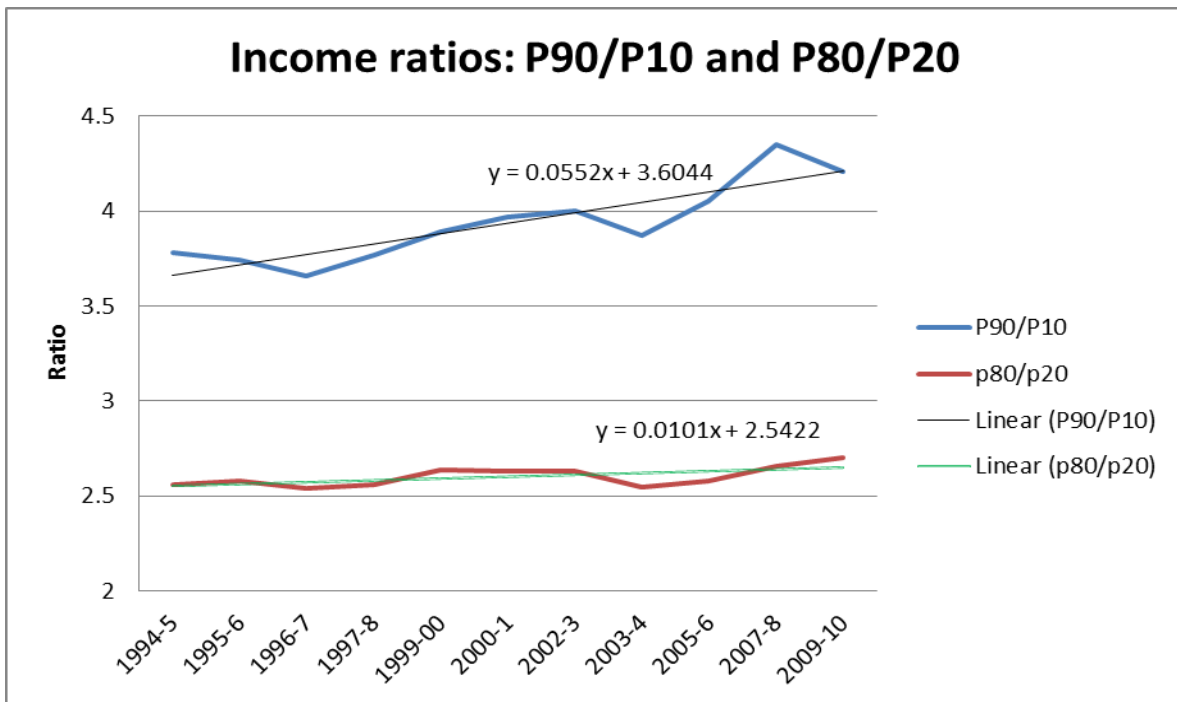
	Mean	Median	Equivalised Mean	Equivalised Median
<b>NSW</b>	1906	1452	937	800
<b>Vic</b>	1767	1420	884	774
<b>Q'Land</b>	1805	1402	899	780
<b>SA</b>	<b>1589</b>	<b>1238</b>	<b>841</b>	<b>730</b>
<b>WA</b>	2117	1638	1017	867
<b>Tas</b>	1443	1132	784	689
<b>Australia</b>	1847	1442	918	790

Source ABS, *Household Income an Income Distribution, 6523.0, 2011-12*

Taking a South Australian perspective, incomes are lower than all other states except Tasmania, irrespective of the measure used. While single numbers that give an indication of income across the population are useful, the crucial aspect of income is how it is shared, or distributed between people.

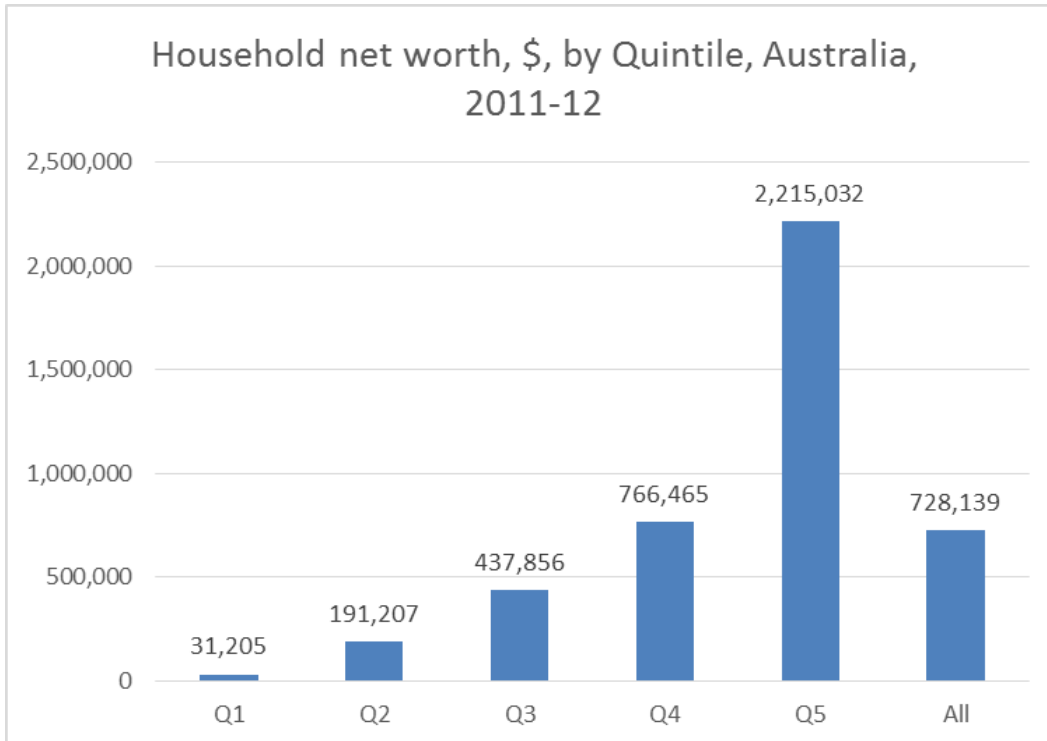
Figure 4 gives two measures of income distribution, both are ratios. The clear reality is that Income inequality is rising in South Australia as it is for the rest of Australia, in aggregate.

Figure 4. Income Inequality



Source, ABS, Household Income and Income Distribution, 6523.0, 2011-12

Figure 5. Household net wealth



Source, ABS, Household Wealth and Wealth Distribution, 6554.0, 2011-12



## Wealth and Wealth Distribution

Wealth inequality is the real story of inequity in Australia. Figure 5 shows household net worth, by income quintile. Since the primary asset for many Australians is their house, we can conclude that very few people in quintiles 1 and 2 own their own home, so affordability of housing has a significant impact on wealth, both of which impact on family wellbeing and children. The massive wealth disparity in Australia, including South Australia provides further rationale for improving progressivity in state taxation.

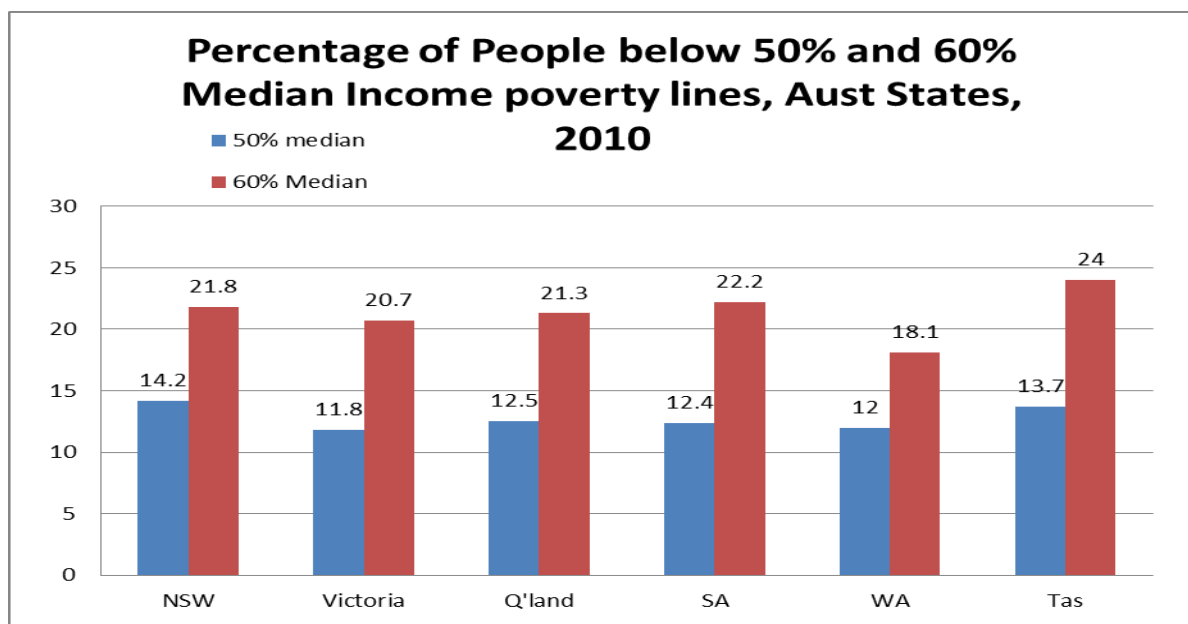
## Poverty

Poverty drains health, happiness and resilience from people. Poverty is invariably passed on from generation to generation.

Australia has a long history of trying to measure the value of a decent or living wage, a wage that would lift workers and their families out of poverty. Two of the most commonly used measures for poverty currently are 50% and 60% of the median household income. So for South Australia, these measures currently yield poverty lines for SA of either \$619 per week (50% measure) or \$742pw (60% measure), which is marginally higher than equivalised median income for the state. National poverty lines using these two measures are currently \$721pw (50% measure) and \$865pw (60% measure).

Figure 6 gives the percentage of people living below these two poverty lines, for each State. About 1 in 8 people live in poverty using the most austere poverty line measure. The number of people below the poverty line increases by about two thirds if we use the 60% median poverty line. This shows that there are large numbers of people on low incomes living near the poverty line, irrespective of which measure is used.

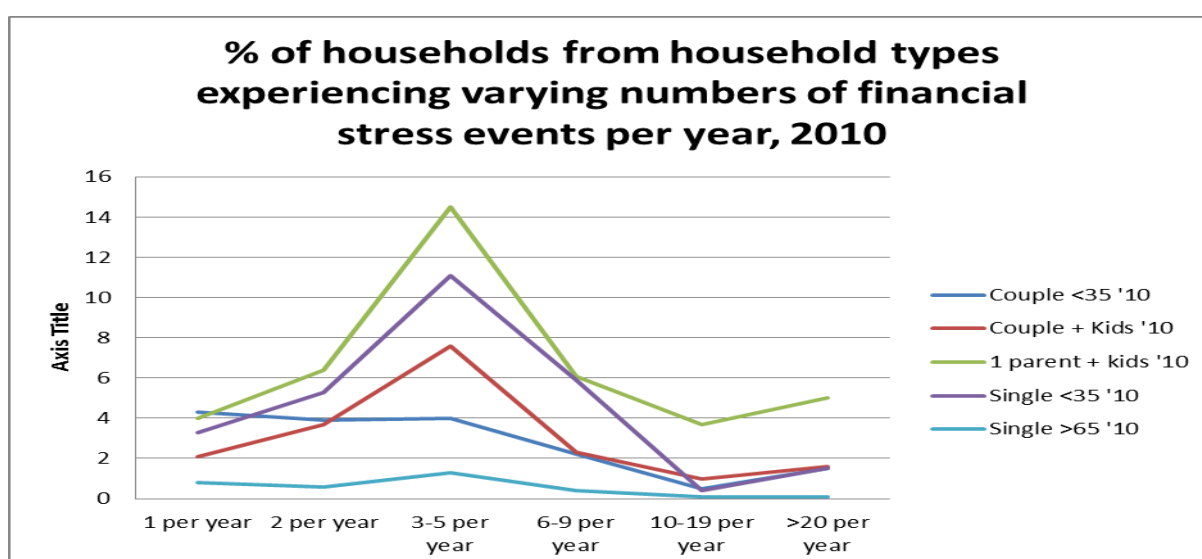
Figure 6: Income Measures, Source: ACOSS, Poverty in Australia, 2012



Another way to measure income disadvantage is to consider the financial stress experienced by households. Figure 7 shows the percentage of households, from various household types and the number of ‘financial stress events’ they experienced during a year.

This information confirms the experience of financial counsellors who repeatedly indicate that the people most likely to be in poverty, or near to it are likely to be sole parents, single younger people and couples with children. People in these categories will either be receiving government income support, working part time in low paid work, or a combination of both of these.

Figure 7. Financial Stress Events



Source ABS, Household Expenditure Survey, 6530.0, 2011

Why equity matters

As indicated earlier, the evidence is increasingly showing that the economies of unequal-income countries do not function as well as more income-equal countries – the bigger the income gap, the greater the levels of inequality and the less dynamic and robust the economy ultimately becomes.

The reality is that poverty and inequality affects us all.

The reality is that poverty and inequality impact on child wellbeing.

Historically South Australia has been able to reduce the consequences of income (and wealth) disadvantage through strong state government policy and programmes, including housing affordability (SA Housing Trust as public housing provider) and with Commonwealth income support.

## Richest Country on Earth

The present combined wealth of the world is the highest that is has ever been in human history. Australia is the richest country on earth with median wealth of adults being \$US219,505 (\$233,504) - the highest level in the world, according to the Credit Suisse 2013 Global Wealth report.<sup>3</sup>

By global standards, while Australia is one of the richest countries in the world, it is also a relatively unequal nation, and becoming more unequal. Our governments, communities and community organisations would do well to refocus on alleviating poverty and disadvantage; not only because it damages poor people and their families, particularly children, not only because reducing inequality benefits us all, but because it is the right thing to do. An adequate tax base and fair tax collection system is critical to achieving a decent society in which all people can contribute.

## Culture of Taxation

We also note that Australia has a “tax culture problem.” There is substantial investment in tax avoidance / minimisation by business, and high income individuals. There are some nations, notably Scandinavian nations, where there is a much higher business and individual commitment to making a contribution to society, including through paying tax. The current low levels of commitment to contributing to society through paying tax, as part of a ‘social license to operate’ is extremely disappointing and results in tax debates being simply about shifting tax incidence to others. Culture shift is slow, but the appalling tax avoidance culture in Australia is one that needs to change, some clear headed thinking needs to start to create a more constructive attitude to tax, a process which Uniting Communities would be eager to be a part of.

While we do not deal with these broader issues any further in this submission, we are happy to provide more information and our thoughts about strategies to address housing, education and employment strategies.

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<sup>3</sup> <http://www.smh.com.au/business/the-economy/aussies-the-worlds-richest-people-credit-suisse-20131009-2v7qy.html#ixzz3PvJUeabS>

## Section 4: Specific State Tax Measures

State taxation measures and opportunities

### Conveyance Taxes

We recognise the importance of land based taxes to State Government revenue and accept that they will be an important future component of State revenue.

We are interested in the proposal raised in the discussion paper of replacing existing lump sum taxes on property sales with an annual poll tax levied on property owners, somewhat akin to the way in which council rates are currently levied.

We have not formed a firm view on the appropriateness of this measure recognising that there are winners and losers whichever way this discussion goes. We would like to see further work undertaken by State Treasury and/or an agency on their behalf, to further understand the sort of impacts that transferring from a lump sum conveyance tax at time of property transfer to an annualised poll tax would look like. Particular consideration would need to be given to likely winners and losers and impact on housing prices.

We would like to believe that a transition from current lump sum to annualised poll tax on property would see housing prices reduced and in particular, affordable housing becoming more affordable. We are not convinced that property developers and the property market is prepared to promptly deliver improved affordability for housing even if the transition was made to an annualised tax.

In short, we would like to see more details of this proposal before we felt we were in a position to support or reject any proposal. Needless to say Uniting Communities would be more than happy to work with State Government and other interested stakeholders in considering the pros and cons, winners and losers of all aspects of this sort of a proposal.

### Motor Vehicle Taxes

We recognise merit in reducing stamp duties on motor vehicle purchases, and reducing taxes on registration fees, because Uniting Communities sees large numbers of people who simply cannot afford to buy more roadworthy vehicles than they own and who can't afford vehicle registration costs. Since transport is crucial for employment, particularly in our ever more casualised labour markets, and important for social and familial interaction, many people are driving unregistered vehicles. Many of these people get caught and end up being taken to court, being charged fines they can't pay, and then charged late fees and so we have a quite vicious negative cycle being created through the relatively high costs of motor vehicle registration and to some extent the higher costs of more roadworthy vehicles. Were reductions in motor vehicle taxes to be applied that reduced the incidence of unregistered drivers and reduced instance of court time dealing with these, then that would be a positive

thing. We recognise that a reduction in motor vehicle taxes would be needed to be offset by increased taxes in other areas.

We also suggest that there is capacity for a more progressive approach to motor vehicle taxes, with registration and taxes on Sport Utility Vehicles (SUV) type vehicles and vehicles over a certain value, say \$50,000 purchase cost, perhaps with an inclining scale from this value being applied.

### Insurance Tax

We agree with the general premise that has been presented by Deloitte Access Economics in the discussion regarding insurance taxes, which is to say that any disincentive for people taking out insurance should be removed and so removing taxes on insurance, particularly the insurances paid by lower income households, would be of net public benefit. This said, insurance taxes meet most of the principles we espoused earlier as applying to a 'good tax'. So while we see value in reducing insurance taxes, there are higher priorities for Uniting Communities regarding taxation changes.

### Gambling Taxes

We are strongly of the view that, if gambling is legal as the State Government has determined it is for gaming machines in hotels and clubs, operation of the casino, operation of the TAB for wagering and operation of lotteries, then a majority of revenue should flow to State Government. This should occur with some reasonable hypothecation going to support services for both people with gambling problems, and equally importantly, for communities and households that are more adversely affected by gambling problems. We argue that, in general, there is more incentive for a commercially focused gambling provider to promote this harmful activity than the state as provider. We also note the NATSEM modelling which shows that gambling taxes are the most regressive taxes. This means that the poorest people and the poorest communities in this state pay most to gambling providers and also in state gambling taxation.

Uniting Communities therefore supports both of the measures proposed by the discussion paper, namely

- Equalising EGM tax rates for hotels and clubs, meaning that there would be an increase from the current concessional taxation rate paid by clubs. We would be support hypothecation of some of this tax increase to occur so that the benefits that clubs claim they provide to the community could be realised by direct funding and here we talk specifically of investment in youth sport and activities that counter ill health and obesity. We believe that direct payment for these services and programmes is much more efficient than allowing clubs, along with hotels, to extract substantial revenue from low income and disadvantaged households, through gambling.

We recommend that in removing the tax concession to Clubs, they be provided with two options:

1. Maintaining current concessional tax levels in return for introducing a \$1 bet limit per spin on EGMs and introducing pre-commitment for all gambling patrons. These gambling harm reduction measures have been well documented in the Productivity Commission's 2010 report on gambling and the pre-commitment aspect developed by the SA Responsible Gambling Working Party.
  2. Moving to the same tax rate as paid by hotels.
- We strongly support the State Government's proposal to tax online and interactive wagering and gambling at point of sale, and believe that this would be of benefit to the community, both providing a disincentive for rapid increases in gambling through online means, but also requiring appropriate registration of online gambling providers operating and being recognised in South Australia. Uniting Communities has keen interest in this area and would be more than happy to work with State Government to develop proposals.

### Payroll Tax

We support payroll taxes because we believe that they are efficient, they are an important part of maintaining the adequacy of the State Revenue base, they are moderately progressive and they are a proxy for "rent" for a range of services provided by the State that are predominately utilised by larger corporations, including aspects of the court system, patents, industrial law, transport networks, policing and the stability of our government systems and institutions.

There is some argument for introducing payroll tax at a lower threshold and at a lower rate, so that there is a more graduated easing into payroll tax payment, with perhaps less incentive for businesses to keep payrolls below certain thresholds.

### Other Taxes not considered

We believe that there are some opportunities to increase the State Tax Base through measures not specifically canvassed in the discussion paper and recognise that whilst these are somewhat contentious for some, they are important parts of potential future tax system for the state. The new taxes that we believe should be introduced

- A bed tax for patrons staying in hotel/motel accommodation and paying more than \$200/night or whatever an appropriate threshold is. This is significantly progressive and provides minimal disincentive for guests staying in more expensive hotel accommodation, provided of course that the bed tax rate is reasonable and not excessive. We are aware of agreement through an Intergovernmental agreement

that bed taxes were to be removed, as a part of rationalising taxes to introduce the GST, however, if increasing the regressive GST is up for debate (through the Commonwealth) then introducing bed taxes should also be 'up for debate.'

- Inheritance taxes. We strongly believe that there is merit in considering tax payments and incidence over a person's lifetime and enabling taxation payment to be paid at a time when individuals are most able to pay taxes. Our current tax arrangements are such that some combinations of Federal and some State taxes provide substantial barriers of entry to housing markets etc at times of household formation, this is quite inappropriate. We are making life much harder than it needs to be for younger person households and households in the early years of child raising. We believe that it would be much better to reduce some of the taxes which impact more directly on these households and collect that taxation at later stages of life, including through modest inheritance taxes on high wealth individuals. These taxes are collected in many overseas jurisdictions and adequate exemptions can be created so that, for example, the family farm is not included considerations of inheritance tax when passed from a dying parent to a child.
- Hypothecated levies. We also wonder if there is any public appetite for hypothecated levies to deal with issues that are of high, shared concern. We would like to think that a child protection 'contribution', for example, that increased the amount of money going directly to child and family support services, would have broad public support; given transparency, allocative responsibility with a body that included public servants and individuals independent of government. A hypothecated levy would probably need to be time limited, say 5 years and progressive. We recognise that hypothecated levies have limited impact on broadening the tax base, but they can still help to improve revenue for high priority areas that are unable to be adequately funded from general revenue. We suggest that a survey be undertaken to ascertain the likely level of public support for hypothecated levies and the priority issues that SA citizens would consider warranted a time limited financial boost.
- Sugar/fat taxes. We believe that there is significant merit in the State Government introducing taxes on very unhealthy foods, particularly sugary drinks and high sugar processed foods with the key proviso that some of the tax collected from these sources be hypothecated to subsidising healthier locally grown food, particularly fruit and vegetables and cereals. We observe that lower income households generally have diets that rely heavily on processed foods, including high sugar and high 'trans-fat' foods, partly because fresh fruit and vegetables can be much more expensive. We believe that sugar/trans-fats taxes are areas where the State Government can be both providing strong behavioural messages while also generating some revenue, some of which can be used to offset the deleterious impact on individuals and their lifestyles of high sugar/high trans-fats processed foods. Uniting Communities has tested this notion informally with some of our

lower income clients, many of the people we have spoken with could see merit in providing disincentives to buy high sugar or high fat products, if fresh healthy food was more readily available and subsidised so that the purchase cost was lower. They also liked the idea of better supporting SA producers. While excises are in the Commonwealth domain, taxes on high sugar products and / or trans-fats could be considered as a service tax, and as such could be applied by the State Government.

#### Triple Bottom Line Accountability.

We also observe that taxation is presented as a purely financial topic in all reporting in the State budget, and other reporting processes. We suggest that there is capacity to present state budget data, including taxation matters with a more 'triple bottom line' perspective where taxation impacts are reported to the SA community against Social, Environmental and Financial 'bottom lines'.

#### Final Note

We are acutely aware that this State Tax Review is occurring at a time when Federal Treasurer, Joe Hockey, has also released a National Taxation Discussion Paper. Whilst we have not considered most of the issues from the Federal tax paper in this response to the State Government paper, we note that the ongoing national issues of vertical fiscal imbalance and horizontal fiscal equalization are important issues for Uniting Communities, but not ones where significant change is needed. For example, we have no problems at all with the efficiency of the current vertical fiscal imbalance arrangements whereby the Federal Government collects most taxes and allocates more than they spend back to states and through states to local governments, to provide a range of local and state wide services. We believe that this is efficient and quite reasonable. Within these considerations we also believe that as a principle, it would be better to have higher PAYE/income taxes which are a progressive tax, with higher personal income taxes offsetting the removal many of the current "nickel and dime" taxes and charges which are particularly applied through state government jurisdictions. These "nickel and dime" taxes are those fees and charges which are applied across a whole range of licences and services which people find irritating, burdensome and which are regressive. Again we would strongly encourage the State Government to be supporting more revenue being collected through progressive income taxes, and these being traded off for the removal of some of the the 'nickel and dime' taxes that make up some part of State revenue, with the higher national tax collection being allocated through the Commonwealth Grants Commission, an agency for which we have very high regard.

For further comments or questions about this submission, please contact Mark Henley, [markh@unitingcommunities.org](mailto:markh@unitingcommunities.org)