



Media Statement

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Statement on Taxation Reform

Extract from Shadow Treasurer Mark Latham's lunchtime address to the *Pursuing Opportunity and Prosperity Conference* at the University of Melbourne, Friday 14 November 2003.

The current government thought that tax reform meant bringing in new taxes: the GST, milk tax, sugar tax, ticket tax, gun tax, wharf tax and the list goes on. That's why he's called Cost-ello: he's costing us an arm and a leg.

In fact, tax reform shouldn't involve new taxes. It should address the major structural problems – the major inefficiencies and inequities – of the Australian tax system. The Government thinks that the tax reform project is complete.

I think that real tax reform hasn't even started. We need to address the five big problems in the tax system ignored by the Howard Government.

The first is that working people are paying too much. This is the highest-taxing government in Australia's history. It has grown fat on a diet of new taxes and bracket creep. Since 1996 the average Australian household is paying an extra \$8,000 in Federal taxes, including \$5,000 more in income tax. This is why Labor is committed to tax relief for working people: they deserve a break, they deserve relief from the highest-taxing government in our history.

The second problem in the tax system is disincentive. Nearly one million Australian families face Effective Marginal Tax Rates of 60 percent or higher. That is, for every dollar of extra earnings, they lose at least 60 cents to the government in taxes and the withdrawal of social security payments.

The tax-transfer system is riddled with disincentives, with poverty traps for low-income families and high marginal rates for middle-income earners. For a dual income household with combined earnings of \$31,000 and a student on Youth Allowance, the Effective Marginal Tax Rate is 102 percent.

That is, for \$100 of extra earnings, the family is actually \$2 worse off after tax and the withdrawal of social security benefits. The Howard Government has knocked incentive in Australia as flat as a tack. It is punishing work, not rewarding it. This is sending all the wrong messages to people.

The harder people work the more likely they are to fall into the top marginal tax rate of 48.5 percent (for incomes over \$62,500 – that is, just 1.3 times average weekly earnings). Australia has a vast army of wage and salary earners – people who have studied hard through TAFE and university and got themselves into decent jobs – who are now paying up to 48.5 percent in income tax. Yet for the owners of companies and capital, paying more than 30 percent is optional.

This is the great imbalance in the taxation system. Honest, hard working PAYE taxpayers are cross-subsidising the corporate sector – in some cases, cross-subsidising high-wealth individuals who are avoiding tax altogether. The incentive system is all wrong. The hard workers are being punished while the rorters are being rewarded.

This is a barrier to economic growth in Australia, a barrier to productivity. For the people who do the right thing in our society, the current system is crook.

If parents are raising children and they have a mortgage, especially if they are living in expensive cities like Sydney, Melbourne and Brisbane, then nobody should pretend that \$65,000 is a huge amount of affluence.

I know from my own electorate there are a lot of people who have come from humble beginnings, studied hard, got through university and got into decent jobs and think the disincentives are too high for all that effort. They don't see themselves as rich. They see themselves as doing what a good society wants them to do.

I believe passionately in reward for effort. People who work hard, study hard, get themselves into good jobs deserve to be rewarded in our society. This is why Labor will put real incentive back into the tax system.

A third problem is inequity. The tax system doesn't treat people doing the same work the same way.

Take the building industry, for instance. There are approximately 500,000 building and construction workers in Australia, essentially doing the same kind of work. 250,000 of them have incorporated, operating as sole traders and sub-contractors. The other 250,000 have remained as workers – PAYE taxpayers. As such, they pay an average tax rate twice that of the first group. Where's the fairness in that?

In fact, this is a deliberate strategy by the Government: an inequity that suits its industrial relations agenda. By doubling the average tax rate for workers, it is trying to push them into the corporate sector – away from trade unions and onto non-union sites.

With the disaggregation of the modern economy – the loss of mass production and an increase in labour flexibility – this is a growing trend across most industry sectors. It is not just the building industry. Workers are also incorporating in the hospitality, personal services, financial and transport industries.

People doing the same work are being taxed at vastly different rates. As Ray Regan of the National Tax and Accountants Association puts it: “We really have two tax systems in Australia – one for those in business or professional life and another for the ordinary wage earner”.

A fourth problem with the tax system is its complexity. In 1970 the tax laws in Australia comprised 450 pages of legislation. Today there are 13,500 pages. At the current rate of growth under the Howard Government, the tax laws will reach 830 billion pages by the end of the century. They will take three million years to read in full and weigh the equivalent of 20 aircraft carriers. And this is what Mr Costello calls tax reform.

Labor is committed to tax simplification. Tax complexity, of course, is a tax avoider’s dream. The more pages, the more clauses, the more complexity in the Tax Act, then the more loopholes, the more anomalies, the more opportunities for avoidance. Complexity and avoidance are two sides of the same coin.

This is the fifth problem: tax avoidance. Just look at the introduction of the GST. It was supposed to attack the black economy and produce a compliance dividend for the Government. Instead, it has been an open invitation for avoidance. Double-quoting is common, as is ABN falsification.

Since the introduction of the GST, the black economy has actually increased – by some estimates, up to 15% of GDP, bigger than the entire New Zealand economy. Despite the Treasurer’s claims in Parliament and countless press releases from the Tax Office, the ATO has been forced to admit that “there are no documents indicating the impact GST has had on cutting the size of the black economy”. So too, the Australian National Audit Office has rebutted the Treasurer’s claim.

In fact, the Tax Office is full of waste and mismanagement. The Tax Commissioner has employed a small army of GST Field Officers (nearly 3,000 staff) who spend just a small part of their time in the field performing audits and investigations on the cash economy. These field officers each have cars and mobile office facilities yet, for most of the time, the Tax Commissioner has them at their desks, filling out reports.

In its GST advertising the Government said we should unchain our hearts. It's time for Mr Costello and Mr Carmody to unchain their staff and put them in the field. No wonder the black economy is expanding.

Mr Carmody is the General McClellan of Australian public administration: he has an army at his disposal but refuses to use it. Under Labor, the GST field officers will spend a majority of their time in the field.

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