



## **Submission on the ACT Taxation Review**

**December 2010**

## About ACTCOSS

ACTCOSS acknowledges that Canberra has been built on the traditional lands of the Ngunnawal people. We pay our respects to their elders and recognise the displacement and disadvantage they have suffered as a result of European settlement. We celebrate Aboriginal and Torres Strait Islander cultures and ongoing contribution to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) is the peak representative body for not-for-profit community organisations, people living with disadvantage and low-income citizens of the Territory.

ACTCOSS is a member of the nationwide COSS network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS' objectives are a community in which all people have the opportunities and resources needed to participate in and benefit from social and economic life and the development of a dynamic, collaborative and viable community sector.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS receives funding from the Community Services Program (CSP) which is funded by the ACT Government.

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ISBN 978-1-921651-40-3 (electronic version)  
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*If keeping taxes and benefits down leads to wider income differences, the need to deal with the ensuring social ills may force you to raise public expenditure to cope.<sup>1</sup>*

## Introduction

ACTCOSS welcomes the opportunity to comment on the ACT Taxation Review. There is strong support for a fiscal policy that ensures there is sufficient revenue for government to meet the needs of the ACT community, and particularly to address the disadvantage faced by many residents.

As outlined in the ACTCOSS statement prepared for the most recent ACT election *The Fairness Challenge*, revenue policy should ensure measures are progressive, meaning they are paid by those with the greatest capacity to pay taxes.<sup>2</sup>

ACTCOSS encourages discussion on revenue policy, particularly where the taxation base can be changed to improve its horizontal and vertical equity, remove social distortions, improve administrative efficiency and provide for future growth. ACTCOSS also sees taxation policy as a legitimate tool to encourage socially beneficial investment and behaviours.

## The need for revenue

The Australian Council of Social Service provided a detailed submission to the Future Taxation Review (also known as the Henry Review). As put forward in *Progressive tax reform: Reform of the personal income tax system* the role of the tax system in solving Australia's economic and social problems is often exaggerated. Its main purpose is to raise revenue for the public infrastructure and services on which Australians rely. However, in future, governments will need more revenue to provide health care and other services for an ageing population. Otherwise, people who are sick or need care will have to meet more of these costs from their own resources, if they are able.<sup>3</sup>

Although Australian governments' spending on health, education, housing and community services are about average by OECD standards, there is growing concern in the community we have under-invested in these services. The greatest deficits in health services are in primary and preventive health care, especially mental health and dental services. Community services for people needing care and support, including disability support services, home care and respite care, are also underfunded.<sup>4</sup>

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<sup>1</sup> R. Wilkinson & K. Prickett *The Spirit Level – Why more equal societies almost always do better* 2009 p.237.

<sup>2</sup> ACTCOSS *The Fairness Challenge – ACT Legislative Assembly Election Statement* 2008 p.48.

<sup>3</sup> ACTCOSS *Progressive tax reform: Reform of the personal income tax system* 2009.

<sup>4</sup> ACTCOSS *Progressive tax reform: Reform of the personal income tax system* 2009 p.12.

As recognised by the ACT Government on the *Measuring Progress* website, the Gini Coefficient<sup>5</sup> has been indicating increasing growing income inequality across the ACT community.<sup>6</sup>

If we are to gain further improvements in the real quality of life, we need to shift attention from material standards and economic growth to ways of improving the psychological and social wellbeing of whole societies.<sup>7</sup>

The ACT Government has a number of taxation policies, regulatory functions and funding instruments which can impact on the financial circumstances of households and levels of financial stress experienced in the community. ACTCOSS recognises Australia currently has unprecedented levels of household debt. There is an increasing demand for financial counselling services which indicates an increasing number of ACT households are facing financial crisis. The ACT Government should use the mechanisms at its disposal to reduce levels of financial stress in the community.

Through further investigation of the taxation system, balanced with needs of the community, reform could be undertaken in the areas of current taxation policies and in refining concessions.

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<sup>5</sup> The Gini coefficient measures inequality through the distribution of income across the community. 1 represents high inequality, 0 would occur when if income was shared equally.

<sup>6</sup> ACT Government *Measuring Our Progress*  
<[www.measuringourprogress.act.gov.au/a\\_prosperous\\_act/equitable\\_distribution\\_of\\_income](http://www.measuringourprogress.act.gov.au/a_prosperous_act/equitable_distribution_of_income)> accessed December 2010.

<sup>7</sup> R. Wilkinson & K. Prickett *The Spirit Level – Why more equal societies almost always do better* 2009 p.4.

## Increasing Demand

Recent research by the Australian Bureau of Statistics has found by 2031 the majority of people aged 85 and over will live independently in their own home.<sup>8</sup>

An ageing population may put more emphasis on single person accommodation, in particular for older people, as well as on health, caring and support services for older people living alone.<sup>9</sup>

There continues to be steadily increasing demand on community services in the ACT. The ACOSS *Community Sector Survey*<sup>10</sup> showed ACT community services experienced a 12% increase in demand from the previous year. It also found the equivalent of one in ten people being turned away. This was an 8% increase in turn away figures from the previous year. This increasing demand is having a significant impact on community services providers. Many services report, due to high workloads and increasing demand, staff are often working in excess of their contracted hours, often in an unpaid capacity. The community sector has been underfunded for many years.

The Productivity Commission found governments have routinely paid only 70% of the cost of services they have contracted to community organisations.<sup>11</sup> In the ACT, 66% of respondents to the *Community Sector Survey*<sup>12</sup> disagreed with the statement "Government funding covers the true cost of delivering contracted services."

## Transport

Access to transport is becoming more difficult as the ACT Government has increased bus fares and parking fees in recent years, without evidence of a commensurate increase in services. This places further pressure on people who are already finding it difficult to access public transport. The funding provided in the 2010-11 Budget investing in coordination and strategic planning for transport services was welcome.

There is need for a more cohesive and less fragmented transport system. This work still has a long way to go and needs to maintain engagement with people experiencing disadvantage to ensure the new transport system meets the needs of people at risk of social exclusion.

As a means of raising extra funding to support public transport initiatives, there is potential to re-investigate a parking levy on commercial parking

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<sup>8</sup> ABS *Australian Households: The Future*, 2010.

<sup>9</sup> ABS *Australian Households: The Future*, 2010, p.4.

<sup>10</sup> ACOSS, *Australian Community Sector Survey Report*, Volume 8 - Australian Capital Territory, 2010, p.4.

<sup>11</sup> Productivity Commission Research Report, *Contribution of the Not-for-Profit Sector* 2010.

<sup>12</sup> ACOSS, *Australian Community Sector Survey Report*, Volume 8 - Australian Capital Territory 2010, p.12.

sites. Assuming approximately 15,000 parking sites in the City, levied at \$200 per year, an extra \$3 million could be added to the Budget. However, any increases in parking prices must be matched by increased transport options and a rise in concessions to ensure where ever possible, people are able to access these options. People experiencing disadvantage often have fewer choices around transport and a higher dependence on private motor vehicles as a result of living in outer areas and requiring transport outside of peak times.

## Reform of Current Taxes

### Payroll Tax

As outlined in the ACT Taxation Review information paper payroll tax is the ACT's highest grossing tax, providing over a quarter of the ACT's own source taxation revenue.<sup>13</sup> The Henry Taxation Review recommended state based payroll taxes be replaced with "more efficient broad-based taxes that capture the value-add of labour."<sup>14</sup>

Due to the significant nature of the local payroll tax system to the ACT revenue base, any review of payroll tax needs to be thorough in its consideration of the impact this may have on the bottom-line for the territory, as well for businesses. ACTCOSS recognises reducing the rate of payroll tax would have little benefit. However, the threshold size of businesses that incur payroll tax could be reduced to increase revenue, as evidence suggests there is little negative impact from increased payroll tax on employment decisions.<sup>15</sup> ACT has the highest exemption rate in the country, at \$1.5 million a year.<sup>16</sup> The exemption rate could be reduced to \$1 million and still retain a competitive advantage over NSW.

It should be noted ACT community organisations, recognised as charities are payroll tax exempt. If a reduction in the threshold were to occur many more charitable organisations, if not otherwise exempt, would be liable to pay payroll tax. ACTCOSS proposes, due to the nature of the work of the community sector industry and the considerable outsourcing by government for this work, the industry remains exempt from payroll tax. Work is underway, led by the National Not-For-Profit Reform Council established in December 2010, on reforms for the community sector as recommended by the Productivity Commission in its report on the contribution of the sector.<sup>17</sup> Such reforms may include the establishment of national registration for community sector organisations and a review of taxation arrangements.

Also of note, nearly half (48.6%) of the ACT workforce is employed in public service through the Federal or ACT Governments. Currently the employment of these staff is exempt from payroll tax.

### Land Tax

Taxes are levied on land by State and Local Governments to assist finance local infrastructure. A broadly based tax on land is economically efficient because land is immobile. However, in practice many exemptions apply,

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<sup>13</sup> ACT Treasury *ACT Taxation Review Information Paper* 2010 p.6.

<sup>14</sup> K. Henry et al *Australia's Future Tax System – Final Report D3* (online version).

<sup>15</sup> ACTU *Submission to Senate Inquiry into Small Business Employment* 2002.

<sup>16</sup> Commonwealth Grants Commission *Report on GST Sharing Relativities – 2010 Review – Volume 2* 2010, p.77.

<sup>17</sup> T.Plibersek MP media release "Members of the Not-For-Profit Reform Council announced" December 2010

limiting their effectiveness and distorting investment decisions. If more revenue could be raised from these taxes, it should be possible to rely less on Stamp Duties on property transactions, which discriminate against those who have to change properties more frequently, disrupting the operation of housing markets.<sup>18</sup>

Exemptions from Land Tax for owner-occupied housing also deprive governments of an equitable source of revenue for improving urban infrastructure, the benefits of which are capitalised in home values. They rely instead on taxes such as Stamp Duties, which increase costs for those attempting to enter the housing market.<sup>19</sup>

If the ACT is to retain stamp duty on conveyancing, then it should only be payable on properties that are above the median price in Canberra, currently about \$511,000. This level should be set in legislation as the median price rather than listed at a set level, so it moves with market prices. Such a move would ensure those with the greatest means to pay bear the larger burden of this tax, while those who buy less expensive properties face lower additional costs.

It is a notion held in the minds of home owners that rates are directly related to the services households receive (e.g. rubbish collection, provision of roads, etc). As the ACT does not generally hypothecate taxation to specific areas of spending, then this notion does not hold true. Any amendments to land tax or rates will not necessarily result in increased provision of 'council' services. Hence there is scope for better communication around the use of land taxes and rates.

In reviewing land taxes the ACT should consider the recommendations made in the Henry review, and be conscious of the lack of affordable housing in the ACT.

## Gaming Taxes

Gaming taxes could be increased to boost revenue, and better reflect the social harm caused by poker machines. Such an increase would be additional to the recent legislated contribution increase to support gambling support programs.<sup>20</sup>

The gaming tax on poker machines contributes approximately 3% of ACT revenue. Currently, operators of poker machines pay a tiered levy based on the gross revenue in their machines. These rates could be raised from 15% (for gross revenue of \$15,000 to \$25,000) to 20%, from 17% (for \$25,000-\$50,000) to 25% and from 21% (for more than \$50,000) to 35%. Non clubs could be taxed also at a rate of 35%, up from 25.9%. This would continue to reflect the increased ability to pay of those clubs which bring in a greater turnover of poker machines.

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<sup>18</sup> ACOSS *Progressive tax reform: Reform of the personal income tax system 2009*, p.40.

<sup>19</sup> ACOSS *Progressive tax reform: Reform of the personal income tax system 2009*, p.31.

<sup>20</sup> *Gaming Machine (Problem Gambling Assistance) Amendment Act 2010* notified 15 December 2010

ACTCOSS also proposes a distinct fund be developed for the oversight of distributing community contributions. As outlined in the recent *Community Contributions* report by the ACT Gambling and Racing Commission there has been a drop in community contributions paid by gaming machine venues. This is reflected in a decrease in contributions to 'charitable and social welfare' and 'problem gambling' programs.<sup>21</sup> An ACT fund could be modelled on *LotteryWest* (operating in West Australia since 1933) which distributes the profits from gaming directly to the Western Australian community.<sup>22</sup>

The casino tax, which is based on gross monthly revenue, could also be increased from its current rate of 10.9% to 18%, similar to West Australia's rate for table gaming<sup>23</sup> and thereby taking into account Canberra Casino not having poker machines. This would increase revenue for the ACT government from \$2.056 million as budgeted in 2010-11 to \$3.395 million, adding \$1.139 million.

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<sup>21</sup> ACT Gambling and Racing Commission *Community Contributions made by Gaming Machine Licensees* 2010, p.6.

<sup>22</sup> <[www.lotterywest.wa.gov.au](http://www.lotterywest.wa.gov.au)>

<sup>23</sup> WA Department of Treasury and Finance *Overview of State Taxes, Western Australia 2005-06*, 2005 p.36.

## Concessions

A concession is a reduction, discount, subsidy, rebate, waiver or exemption provided by government on the value of goods, services or associated fees to an individual, family household or organisation. Concessions are the means through which government subsidies directly facilitate lower prices for people experiencing disadvantage. Improved quality of life is contingent on a concession program that is targeted appropriately to people with the greatest need for basic services. The Information Paper outlines a number of tax-based concessions currently available.<sup>24</sup> However, the range of concessions available in the ACT goes beyond the list provided.

As any changes to the tax system may have unintended consequences or place unexpected pressure on individual budgets, the ACT Government needs to implement increased financial disclosure and information provision to assist households in managing their finances, as well as increased resources for financial counselling to assist households facing financial stress.

The ability to access concessions and the range of concessions available needs to be considered in the context of the ACT Taxation Review. The Henry review recommended the current system of means testing be reviewed,<sup>25</sup> and identified a range of flaws in the current structure of social security payments: people in similar circumstances are paid at different rates; these gaps are growing; and the system is too complex.<sup>26</sup> Similar concerns could be levelled at the ACT concession system. As outlined at the ACT Government concessions portal "there are approximately 30 concessions administered by six agencies across the ACT Government. Each ACT Government Concession has different eligibility requirements."<sup>27</sup>

It is important concessions be seen explicitly as a program designed and managed primarily to meet the government's social objectives, such as improving affordability, access to opportunities and community participation for older citizens and people on low incomes. However, it is clear there are a number of groups in the community - particularly low-income groups whom are not eligible for a pension - who are in equal, if not greater, need of assistance, yet are not included in these concession arrangements.

The eligibility requirements include holding a Health Care Card, a Centrelink Pensioner Concession Card and being in receipt of a Centrelink payment. While providers of concessions will require certain information from consumers to assess their eligibility, a balance needs to be struck

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<sup>24</sup> ACT Treasury *ACT Taxation Review Information Paper* 2010, p.18.

<sup>25</sup> K. Henry et al *Australia's Future Tax System – Final Report* Chapter 12, recommendation 88 and 89 (online version).

<sup>26</sup> ACOSS *Australia's Future Tax System – Social Security Reform – Evaluation* 2010

<sup>27</sup> ACT Government Concessions portal <[www.concessions.actgov.au](http://www.concessions.actgov.au)>

between this need and the right to privacy of recipients, including protection of sensitive information such as income levels. Standardised procedures could be developed for assessment of eligibility for concessions. These procedures need to include standardisation of information required from applicants. Such guidelines would ensure appropriate decisions on eligibility could be made, while safeguarding personal information and privacy.

The ACT Government has undertaken two reviews of the concession system in the past 10 years and has committed to improving the accessibility and promotion of concessions. These reviews and their outcomes require further examination in the context of this taxation review.<sup>28</sup>

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<sup>28</sup> ACT Government reviews took place in July 2002 and October 2007. ACTCOSS submissions to these reviews can be found at [www.actcoss.org.au/publications/Policy\\_docs.html#11](http://www.actcoss.org.au/publications/Policy_docs.html#11)

## Conclusion

It is clear the current taxation base for the ACT will be insufficient to meet the needs of the community in coming years. In reviewing the tax base there is a need to conduct a thorough analysis of the equity impacts of Territory taxation, and focus on removing regressive taxes or introducing progressive ones. Also, as the ACT Government is considering designing new tax policies, analysis should be done on the predicted responses to taxation change to determine the extent to which it will produce socially beneficial outcomes.