



Australian Education Union

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Tax Forum
Treasury
Langton Crescent
PARKES ACT 2600

Email: taxforum@treasury.gov.au

Dear Sir or Madam,

The Australian Education Union submits the following AEU Policy “Securing the Revenue Base for High Quality Services” (attached) for consideration in the tax reform debate and the Tax Forum on 4 & 5 October 2011.

Yours sincerely,

Susan Hopgood
Federal Secretary

AUSTRALIAN EDUCATION UNION

Securing the Revenue Base for High Quality Public Services

Policy

As adopted at the 2011 Meeting of the
AEU Annual Federal Conference

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1. INTRODUCTION

A fair and equitable taxation system and adequate and equitable investment in public education and training are central to economic development/prosperity and the creation and maintenance of a fair and equitable society.

- 1.1 For our future to be fair and equitable for all, it is the responsibility of good governments to foster the social and economic opportunities of all their citizens.
- 1.2 A fair and equitable tax system is essential in allocating resources more fairly, driving policy outcomes by providing financial incentives and disincentives, and in adjusting the budget position towards surplus or deficit as circumstances change.
- 1.3 Strengthening Australia's tax system is essential to meet the challenges facing Australia, including the provision of high quality public services, measures to address issues such as population aging and environment/climate change, and the provision of adequate social and economic infrastructure.

2. THE IMPORTANCE OF AN ADEQUATE REVENUE BASE

- 2.1 Properly administered, with a focus on fairly distributing wealth and income, revenue raising is the foundation of a stronger, more sustainable economy and a fairer society. It is a collective investment by Australians in the future of their country.
- 2.2 Without an adequate revenue base, governments are unable to provide essential services and benefits which play a key role in helping create the conditions for responsible economic growth and development, alleviating social and economic disadvantage and maintaining a socially cohesive and fair nation.
- 2.3 The design of the tax system has effects which greatly increase or reduce hardship and inequity. People who are substantially disadvantaged by lack of income or other difficulties are especially vulnerable if the tax system fails to treat them fairly.
- 2.4 Unfair economic development policies and tax structures which favour corporations and the wealthy, and which see the less wealthy pay disproportionate amounts of tax result in a loss of public revenue and jeopardise the revenue base of governments.
- 2.5 Total tax revenue in Australia is low by international standards and as a country we still have major unmet needs in areas such as education, health, aged care, disability services, transport and the significant environmental challenges associated with climate change. The gap between Indigenous and other Australians in almost all social measures has yet to be successfully addressed.
- 2.6 During periods of capitalist recession such as the global financial crisis, tax-payer funded government stimulus measures and bailouts are extended to the private sector. The cost

to the government is increased deficit and public borrowing. Effective taxation and regulation of the corporate and financial sectors are essential.

- 2.7 The global financial crisis has reduced government revenue at a time when governments need to increase expenditure in order to confront the challenges of global warming, economic dislocation and an aging population. Alternative sources of revenue must be sought through measures that ensure that the rich pay their fair share towards the common weal rather than cutting back on social expenditure.
- 2.8 Businesses rely for their success on the skills of their workforce, publicly funded research and infrastructure, and well-developed legal systems and intellectual property regimes. As beneficiaries of these investments, largely funded through public expenditure, businesses should pay their fair share in taxation. For the sake of both equity and efficiency corporate taxes cannot be allowed to go on falling.

3. THE NEED FOR INCREASED INVESTMENT IN PUBLIC EDUCATION AND TRAINING

- 3.1 Investment in public education and training provides a greater return to our economic prosperity than investing in tax cuts and corporate subsidies.
- 3.2 Analysis of the level of public spending on social programs and economic growth in developed countries shows that smart use of tax spending in areas like education and infrastructure has a greater positive impact on economic growth than cutting taxes.
- 3.3 Tax cuts have a negative impact on public programs and undermine our ability to provide taxpayers with quality services and the required investment in public education and training and infrastructure necessary in the modern global economy.
- 3.4 Adequate and equitable investment in public education and training is *the* necessary first step toward building the capacity of schools and TAFEs to deliver excellent outcomes for all students – fundamental to equity and social cohesion – and ensuring the quality of our future workforce and ensuring future economic prosperity.

4. PRINCIPLES OF A GOOD TAXATION SYSTEM

In order to promote sustainable economic and social development and provide benefits for all Australians the tax system must be:

4. 1 Adequate

- Sufficient in breadth and capacity to fully fund the universal provision of high quality public services, including public education and training, and ensure adequate physical and social infrastructure to meet the needs of all citizens.

4.2 Fair/ Equitable

- Progressive in order to provide for fair redistribution of wealth and income;
- Sufficient to ensure equal opportunity for all citizens, including those with low-incomes and the disadvantaged;
- Recognise gender inequity in pay and retirement incomes and take into account the fact that women are disproportionately represented in low-income groups, that the current system disproportionately taxes those in the lower to middle income brackets in which women are largely concentrated and that women are particularly affected by tax arrangements which unfairly impact on casual and part-time employees.
- Structured to discourage tax avoidance and evasion and ensure that all sectors of the community - business, investors, wage and salary earners and the self-employed - make a fair contribution through the taxation system.

4.3 Transparent

- As transparent and simple as possible and free of distortions, concessions or loopholes which aggravate disparities in income and wealth.

4.4 Efficient

- Administered in a way that ensures general and widespread compliance and confidence in the fairness of its application, and that the costs of enforcing compliance are not unreasonable in relation to the revenue raised.

4.5 Sustainable

- Stable and robust over time to provide for sustainable public investment and other expenditure, with the capacity to adjust that level for future needs (eg. arising from an aging population).
- Designed to encourage socially, economically and ecologically sustainable investment and infrastructure projects, and discourage investment which is destructive, unproductive and aggravates environmental damage.

5. POLICY ALTERNATIVES

At any given time there are a number of tax reform proposals which require public discussion and debate. The AEU will use this policy as the basis for developing positions on tax reform proposals as required.

As at January 2011, major proposals include:

5.1 Reform of Mining tax

Reform of mining tax was a key recommendation from the Henry Report to strengthen the tax system and meet the challenges facing Australia. The AEU is supportive of a national tax on the use of Australia's mineral resources as a fair and economically efficient way to raise revenue and fund services for the community. Australia's mineral resources are owned by the public and the mining industry receives generous subsidies from government, so it is fair that mining profits will be shared with the public and invested into a sustainable future for all Australians.

5.2 Superannuation and Infrastructure Investment

The AEU is supportive of sound social investment strategies such as the use of funds from superannuation and managed funds to fund social and economic infrastructure.

5.3 A Global Tax on Financial Transactions

The AEU is supportive of moves towards the regulation of financial institutions in the public interests and a global tax on financial transactions as a progressive means of raising the revenue base to boost infrastructure, education and other important public services.

6. SOME DIRECTIONS FOR ACTION

In order to support the policy objectives of legislative and political action to secure and defend the revenue base for high quality public services and help ensure the fairness and adequacy of the tax structure, the AEU and its Branches and Associated Bodies will:

- engage in a process of membership education through journals and other means of communication to inform members about the importance of these issues.
- encourage membership involvement in progressive forums and activities which promote a fairer and more equitable taxation system, with high quality properly resourced public education and training as a priority, including the use of superannuation funds in the provision of infrastructure.
- promote useful resources such as:
 - <http://robinhoodtax.org.au/>
 - <http://www.catalyst.org.au/catalyst/>
 - <http://taxwatch.org.au/home.asp>

- continue to collaborate and campaign with other unions, organisations and community partners committed to high quality well resourced public services for the public good.

7. BACKGROUND INFORMATION

The Influence of Neo-Liberalism

Over the last several decades considerations of the roles of government and taxation in society have been influenced by the domination of neo-liberalism in policy making.

Margaret Thatcher (elected PM of the UK May 1979) and Ronald Reagan (took up office of President of USA in February 1981) successfully established the political/economic concept of ‘small government’ linked with lowered taxation and deregulation.

It became the conventional wisdom that public budgets could not cope with the expansion of social needs, that the private sector was inherently more efficient than the public sector and that ‘economic actors’ should be freed from the yoke of regulation.

In Australia, as elsewhere, this has seen the pursuit of privatisation, deregulation and marketisation and moves to a reduction in the state provision of services such as education and health care and an increased private sector, reforms of public services including the use of PPPs and the selling of publicly owned assets, along with a dismantling of regulations limiting corporate powers.

The capacity of transnational corporations to use their global reach to avoid their responsibility to contribute through fair and responsible taxation to national and community social needs impacts on the capacity of state and national governments to raise sufficient revenue fairly and equitably.

Domination of considerations of the tax system by powerful corporate interests restricts the capacity of Australian Governments to raise the revenue required to meet the community’s needs without harming the economy or imposing a disproportionate share of tax on low and middle income earners.

Constant agitation from the business community for a major reduction in the corporate tax rate on the grounds of the increased integration of global markets associated with globalisation overlook the fact that Australia’s corporate tax rate is not excessively high by international standards and the significant implications it would have for Australia’s revenue base and the delivery of public services in the context of framing future budgets.

The time is now right to reaffirm the vital role of public services in the community and the importance of quality, effective, ethical and adequately resourced public services.

See: ICFTU, *Having their cake and eating it too - The great corporate tax break*, ICFTU Online, 6 July 2006, Brussels www.icftu.org

The Global Financial Crisis

The global economic crisis highlighted the failure of neo-liberalism and 'free-market' agenda of the last several decades.

Hallmarks of the neo-liberal agenda in the global economy included the encouragement of financial speculation and tax avoidance, reckless deregulation of financial services and less productive investment in the new infrastructure, social services and new industries our society really needs.

Public services, including education and training, healthcare, transport, housing and infrastructure and environment were run down with negative social and economic consequences.

While the Government's economic stimulus initiatives in response to the crisis, including the schools infrastructure funding measures, were welcome, the need for long-term, sustainable investment in public services, including education and training, remains.

Australia is a Low-Tax Country

National and international research evidence shows that:

- Overall levels of taxation in Australia on personal incomes and on business are not especially high by OECD standards.
- Total tax revenue in Australia is in the bottom-third of all thirty OECD countries. It is at least \$50 billion less than if we matched the OECD average (as a proportion of GDP).
- The level of taxation based on incomes, whether paid by individuals or by corporations, is in the bottom half of all OECD countries.
- The top marginal tax rate and threshold for personal income tax are generous by OECD standards.
- Total tax per dollar earned has fallen by at least 20% for high-earners over the last two decades but there has been little or no decline for lower-earners.
- The proportion of corporate profit which is paid as income tax is lower than for several decades.
- The tax rates on corporate income and on capital gains are not especially high by OECD standards; nor is the overall taxation of business.
- Taxation of goods and services is relatively low by OECD standards, partly because most European countries have a GST rate of 15% or more.
- Australia is one of only four OECD countries without some form of gift or death duty.
- Public support for "social spending" rather than "tax cuts" rose from 25% to 47% over the last decade while the preference for tax cuts fell from 47% to 34%.
- Higher-tax countries tend to achieve better social development and to perform at least as well economically as low-tax countries.
- Tax exemptions and other forms of tax expenditure often escape adequate public scrutiny resulting in substantial waste, unfairness and inefficiency.

Source: TaxWatch online report: *Aspects of the Australian Tax System: A Preliminary Outline* (www.taxwatch.org.au)

The Henry Tax Review

The Henry Review was initiated because the present tax system needs urgent reform.

The Review identifies the loopholes and measures which privilege the wealthy within the Australian tax system. These deprive public revenue of billions of dollars which could be invested in education and training, hospitals and health care, transport, social services, energy and water efficiency initiatives, environmental protection appropriate economic development and other measures which benefit middle- and lower-income Australians not just the highest earners.

The superannuation system is unfair and designed to benefit those with higher incomes. Superannuation tax concessions cost the Federal Budget about as much as age pensions. Housing tax breaks cost at least five times as much as public housing and rent assistance. Yet the dominance of neo-liberal thinking in public policy has seen the continuation of assistance through tax breaks rather than through direct payments which would be much better-targeted and cost effective.

The Government's rejection of most of the Henry Review 138 recommendations is a significant setback to a fiscally responsible national reform agenda and a genuinely sustainable, fair and equitable Australia.

Corporate Tax Poll

In February 2010 Catalyst Australia commissioned a survey of peoples' attitudes towards corporate tax in Australia. It showed that public opinion is firmly on side to close down the system of corporate tax loopholes and measures that primarily benefit big business.

Only one quarter of all government revenue comes from taxes on business and the survey showed that three quarters of people surveyed though business should pay a greater share. There is little public support for measures sought by big business such as a reduction in the rate of corporate tax and increasing the GST.

Half of all people surveyed wanted to see fewer business concessions and deductions which allow the current system where companies can reduce their tax by claiming concessions and deductions which result in half of all companies paying less than 5% tax.

Source: <http://www.catalyst.org.au/catalyst/campaigns/299-tax-reform-2>

Use of Superannuation to Fund Infrastructure

The reluctance of governments to carry the debt required to build social and economic infrastructure, and the justified suspicion many people feel towards private infrastructure projects, where the public bears the costs but any profit is "privatised", have renewed interest in proposals for the use of superannuation funds in the provision of infrastructure.

The growing national pool of retirement savings is already well over \$1 trillion and is on course to be \$3 trillion by the mid-2020s. This is the savings pool that was initiated and achieved by union campaigns in the mid-1980s and supported by Keating Government

legislation in 1992. It could be funding the projects that build our cities and regions, helping them grow in the 21st century.

We need to collectively find ways to allow superannuation to be harnessed to build the infrastructure of Australia's future. This doesn't need to be at the expense of securing a sound retirement benefit for Australian workers: some of the funds can be invested to both build Australia, while at the same time growing members' super accounts.

Source: Ged Kearney, President ACTU, Address to the National Press Club, 6 October 2010