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THE LEGISLATIVE ASSEMBLY FOR THE

AUSTRALIAN CAPITAL TERRITORY

GOVERNMENT RESPONSE TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS REPORT 8 "REVENUE RAISING ISSUES IN THE ACT"

TABLING SPEECH

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Ted Quinlan MLA

1 July 2004

Mr Speaker, I am pleased to table the Government Response to Report 8 of the Standing Committee on Public Accounts (PAC) titled "Revenue Raising Issues in the ACT".

I would like to thank the Committee for their Report and I am happy to advise that the Government supports Recommendations 1 (1), 2, 5, 6, 15 and 16 and supports Recommendations 4, 8 and 9 in principle.

Mr Speaker, the Government is committed to the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). It is in this forum that a significant proportion of the issues relating to tax reform in the PAC Report 8 will be addressed.

I would also like to point out that the Revenue Management Branch of the Department of Treasury constantly monitors revenue legislation to ensure it maintains currency and equity. Another important factor that is constantly under review is that taxation legislation is practical to administer with efficient compliance costs for both Government and the taxpayer.

Mr Speaker, the Government is also committed to protecting revenue by minimising the impact on the ACT of tax leakages, evasion and avoidance through effective legislation and regulatory measures.

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GOVERNMENT RESPONSE TO
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

REPORT 8

"REVENUE RAISING ISSUES IN THE ACT"

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INTRODUCTION

On 4 March 2004 the Standing Committee on Public Accounts presented its Report 8 "Revenue Raising Issues in the ACT" to the Legislative Assembly.

It should be noted that the ACT Government is committed to the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) and some matters relating to tax reform may be decided in this forum.

The Standing Committee on Public Accounts Report (PAC Report) included sixteen recommendations.

GOVERNMENT RESPONSE

Recommendation 1
The Government undertake an evaluation, possibly in association with the Commonwealth and other States and the Northern Territory to:
(1) determine the potential for an increased revenue flow to States and Territories, and
(2) the adequacy of compensation measures to offset the regressive impact of the GST.

Government Response
The Government **supports** Recommendation 1 (1).
The system of federal financial relations applying in Australia is characterised by vertical fiscal imbalance. In effect, the Commonwealth Government raises more tax revenue than it requires for its own purposes and provides some of this excess to the States and Territories which raise less revenue from their own sources than is required to meet their expenditure obligations. The States and the Territories continually review options for addressing vertical fiscal imbalance. The tax reforms introduced by the Commonwealth Government in 2000, and enshrined in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* was a significant step in providing the States and Territories with access to revenues from a broad based growth tax. The States and Territories continue to explore further reforms which would provide an increased share of the total available revenue.

In addition, the Government is reviewing options for the full compensation for both the unique national capital circumstances of the ACT and the net cost of providing services to non-ACT residents. Partial compensation for these costs is received through the GST revenues as a result of the assessments undertaken by the Commonwealth Grants Commission. The Department of Treasury, in conjunction with relevant Agencies, is currently exploring options for increased compensation through alternative mechanisms.

The Government **does not support** Recommendation 1 (2).
An evaluation or review of the adequacy of GST compensation measures is a matter for the Commonwealth Government. The Constitution ensures that the Commonwealth Government has responsibility for welfare benefit payments, which can be used to reduce the regressivity of the GST.

The current income re-distribution regime is not only extremely complex but is continually evolving, with policy adjustments being made annually. GST is only one aspect of the full spectrum of taxation, benefit payments and rebates. Any evaluation of the social impacts of the GST should not be done in isolation.

It is also noted that States and Territories already have input to various intergovernmental forums dealing with policy and administration of the GST. The GST Administration Sub-committee, set up under the IGA, regularly monitors and makes recommendations regarding the operation and administration of the GST to the Ministerial Council – consisting of all Commonwealth and State and Territory Treasurers.

Additionally, at the time of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the Commonwealth Government made a range of concessions to offset the regressivity of the GST, particularly regarding items such as food, education, health and public housing.

Recommendation 2
The Government assess the potential to abolish certain revenue raising measures, as proposed in the IGA.

Government Response
The Government **supports** the recommendation.
In accordance with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the abolition of Bank Account Debits tax from 1 July 2005 was reviewed and agreed at the Treasurers' Conference on 26 March 2004.

The IGA also states that the Ministerial Council will, by 2005, review the need for the retention of certain business taxes. It is not a foregone conclusion that any or all of these taxes will be abolished. All jurisdictions have agreed to Terms of Reference for the review of the State taxes listed in the IGA and this Government will continue to participate in the established process of review. For the ACT, the review will consider the need to retain duties on non-residential conveyances, non-quotable marketable securities, leases and rental arrangements. A major consideration will be any implications for each jurisdiction of removing the taxes, including affordability in the context of budgetary requirements.

Affordability in this context needs to take account of not only the relative position of any jurisdiction under the GST arrangements compared to the previous intergovernmental financial relations framework, but also changes and pressures on the expenditure side, especially in areas such as health and education.

The costs of providing services are greatly increased with an ageing population. These pressures must be recognized now and going forward to determine the affordability of abolition of taxes under the IGA.

Recommendation 3
The Community Engagement Unit be tasked with developing a communication strategy to inform the community on how revenue is raised and the limitations of the current revenue base and the need to develop new sources of revenue and to determine community views on current and possible new revenue measures.

Government Response
The Government **notes** the recommendation.
An ACT Government Community Engagement Code of Practice (the Code of Practice) is currently being developed to ensure a stronger, more cohesive relationship between the ACT Government and the Canberra community. The Code of Practice will articulate the ACT Government's aspirations for community engagement, recognise the important role of the community in good government and provide a practical and flexible guide for Government Agencies on how to undertake effective engagement activities. It is anticipated that the Code of Practice will be publicly announced in August 2004.

This Code of Practice will apply to all Government agencies including the Department of Treasury and should ensure enhanced engagement with the community on revenue matters. However, it should be recognised that it is not always possible to involve the Canberra community on all taxation issues. It would be inappropriate to consult on all issues relating to tax avoidance and new sources of revenue as prior notice could lead to tax evasion.

Information on how revenue is raised is readily available on the ACT Revenue Office website at www.revenue.act.gov.au. The ACT Revenue Office also conducts client education as part of its compliance program.

There is a large proportion of the community who would express their willingness for new initiatives. However, these same people would also express their dissatisfaction when taxes were increased to fund these initiatives (for example: a levy to build a new dam). When it comes to taxation, individuals support the broader benefits but ultimately focus on how tax increases affect them individually. In a broader community based consultation forum there will always be differences of opinion as to the relative merits of any new revenue source based on how it will impact on each individual, their interests and their priorities.

Recommendation 4
Without compromising social considerations, the Government review those tax lines which have been assessed by the Commonwealth Grants Commission to be below the average revenue raising effort with a view to improving the ACT's overall revenue raising effort.

Government Response
The Government **supports** the recommendation **in principle**.
While the review of taxes which are assessed as having below average revenue raising effort is supported in principle, it needs to be noted that these tax lines should be

reviewed as part of the overall tax mix. Whether or not a tax effort is above or below average (as assessed by the Commonwealth Grants Commission) should not be a major determinant of tax policy. The specific circumstances of the ACT community and economy are far more important considerations.

It should also be noted that the key taxes which are assessed by the Commonwealth Grants Commission as having below average revenue raising efforts are Financial Transactions Taxes and Gambling Taxes. The Commission's assessments for these taxes are based on broad economic indicators, deemed to reflect an underlying measure of relevant economic activity, however not reflecting the propensity of ACT residents to engage in the taxable activity.

As an example, the Gambling Tax assessment measures capacity to raise revenue using a derivation of household disposable income. This measure overstates the Territory's capacity to raise revenue because it does not take account of the lower propensity of ACT residents to gamble. The actual revenue collected, when compared with the assessed capacity appears to suggest that the revenue effort is below average, whereas, in fact, the ACT's tax rates and range of permitted gambling activities are comparable to or higher than those of other jurisdictions.

Recommendation 5
The Government as a matter of urgency develop regulations and legislation to ensure where necessary, measures to minimise tax avoidance.

Government Response
The Government **supports** the recommendation.
The Government is committed to minimising the impact on the ACT of tax leakages, evasion and avoidance through effective legislation and regulatory measures.

Currently there are transactions that are not liable for duty because of the way the parties involved, or the transactions in question, are defined. For example, the transfer of shares in a land rich company is subject to duty only at the ordinary rate for the transfer of shares. In such cases, the transfer of shares amounts to the transfer of interests in land, and equity would demand that the duty imposed reflects the true nature of the transaction, that is, a conveyance of land. The Government is consulting on amendments to the *Duties Act 1999* which would broaden existing provisions to impose duty on those transactions that are currently outside the duty net.

The Compliance Section of the Revenue Office conducts extensive education activities to ensure that taxpayers are aware and understand their rights, duties and obligations.

The Government also supports the continuing review of legislation to close loopholes and increase voluntary compliance by educating taxpayers on their obligations.

Based on compliance activity over the period 1998-99 to 2000-01, Treasury estimated that, on average, it loses 2.1% of its payroll tax revenue base through leakage to NSW annually. That is an average of $2.931m pa.

In this context, the Government has asked the Commissioner for ACT Revenue to review the options for minimising tax leakage including:

- putting in place an agreement with NSW; and/or
- adopting greater penalties for employers paying tax to NSW; and
- compliance activity - an increase in compliance is likely to lead to increased levels of tax leakage being uncovered, and thus additional potential revenue gains for the ACT.

Recommendation 6
The Government examine current taxes for their regressivity and consider options which are more progressive as alternatives.

Government Response
The Government **supports** the recommendation.
The Government supports the concept of progressive tax systems. However, the ACT is limited in its ability to raise revenue, as there are no major resources or manufacturing sectors, and there is no economy of scale associated with large corporations and the larger States. The ACT collects mainly transactional and property based taxes and there is limited scope for progressive taxes. The States and Territories do not collect taxable income data which is needed to apply a progressive tax regime. Under the Constitution the Commonwealth is responsible for social security payments and the States and Territories use the Commonwealth eligibility criteria for these payments to mitigate the regressive nature of their taxes by applying concessions and rebates.

The ability of the ACT, or any State or Territory, to reduce the regressivity of taxes is largely dependant upon the Commonwealth Government. Any tax reform to improve the overall efficiency and equity of revenue measures depends on developments at the national level and requires agreement and cooperation between State, Territory and Commonwealth jurisdictions.

At the time of the *Intergovernmental Agreement on the Reform of the Commonwealth-State Financial Relations* (IGA), the Commonwealth Government made a range of concessions to offset the regressivity of the GST and several State and Territory taxes (such as Financial Institutions Duty and duty on quoted marketable securities) were abolished. Under the IGA it is anticipated that a number of inefficient, and possibly regressive, State and Territory taxes will be reviewed and possibly abolished over time when the revenue from the GST is sufficient to offset the revenue forgone from these taxes. The first to be abolished will be Bank Account Debits tax by 1 July 2005.

There are other ways to improve the ACT tax system such as minimising the impact on the ACT of tax leakages, tax evasion and avoidance through effective legislation, regulatory measures and compliance activities.

Recommendation 7
The Government assess the potential equity benefits of broadening the land tax base.

Government Response
The Government **does not support** the recommendation.
The broader issues relating to the appropriate tax mix for the ACT are addressed in the Government's Response to Recommendation 9.

Recommendation 8
The Government review the social and environmental sustainability of current taxes on motor vehicle ownership and use.

Government Response
The Government **supports** the recommendation **in principle.**
Current taxes on vehicle ownership and use will be considered in the context of implementing the Sustainable Transport Plan having regard to national developments.

It should be noted that the ACT has a weight based vehicle registration fee structure that broadly reflects the greater impact that heavy vehicles have on road infrastructure and emissions.

The ACT Government provides a 20% reduction in the registration fee of vehicles that use alternative fuels such as LPG, natural gas and electricity.

To assist those in greatest need of financial assistance, the Government has a program of concessions covering vehicle registrations. For example, holders of a Pensioner Concession Card or Repatriation Health Card ("Gold Card") receive a 100% concession on vehicle registration (restricted to one vehicle concession per pensioner). These pensioners, and also holders of a Centrelink Health Care Card, pay a surcharge on quarterly and six-monthly registrations of $10 rather than $25. ACT Seniors Card holders receive a 10% concession on vehicle registration.

Recommendation 9
The Government review the efficiency of and the social, economic and environmental sustainability impacts of the current stamp duty system in the ACT and the potential for replacing conveyance tax with a broader land tax.

Government Response
The Government **supports** this recommendation **in principle.**
The Revenue Management Branch of the Department of Treasury constantly monitors revenue legislation to ensure it maintains currency, equity and is practical to administer with efficient compliance costs for both government and the taxpayer. Consideration is given to the economic consequences of a revenue measure and that it is comparable with other jurisdictions.

All new measures and changes to revenue are examined against the relevant criteria of the Government's Sustainability Policy.

Changes to duty on conveyances and land tax may have implications for the ACT in terms of the Commonwealth Grants Commission's assessment processes and thus the share of GST funding received. Tax policy changes and their impact on the Commission's assessments could be self-defeating if there is a decline in the ACT's GST funding.

Recommendation 10
The Government explore ways other than providing tax incentives to business, for attracting business investment within and to the ACT.

Government Response
The Government **does not support** the recommendation.
The Economic White Paper (EWP) clearly sets out the Government's economic development agenda. Principle three of the EWP enunciated the Government's commitment to job creation as the rationale for economic development. This economic development is to be built on the ACT's endogenous strengths rather than relying on large incentive payments to attract national and international companies to the ACT.

The Government has also confirmed in the EWP that incentives would take the form of training, land, infrastructure and tax abatement rather than the provision of cash incentives. The provision of tax incentives is, in fact, preferable to cash grants as these incentives can be structured to ensure that milestones are met before the incentive is paid, whereas up front cash payments do not offer such protection. In addition the Government has in place a range of measures to develop businesses and build on the ACT's competitive advantages. For example:

- the Knowledge Fund provides funds for businesses to commercialise innovative ideas;
- the recently announced Commercialisation Fund will assist with the exploitation of the intellectual property resident in the ACT's scientific and research institutions; and
- the new Export Strategy will assist innovative, high value-added businesses to access overseas markets.

The Canberra Partnership Board, which will bring together the Government and the private sector, will oversee this new approach to economic development.

There will, however, be occasions when tax incentives may be required, particularly when the incentive can be structured to achieve employment growth. Since October 2001 the Government has agreed to 6 incentive packages that will provide up to $2,616,000 in tax waivers. All of these incentive packages have been for local companies and will result in the creation of up to 184 jobs in the ACT. By comparison, the previous Government between 1995 and 2001 entered into 25 incentive packages worth $52,884,990 in payroll tax waivers.

This Government will ensure that such tax waivers are only used occasionally and only where there are significant job creation opportunities.

This Government does recognize, however, that there are costs that can arise through the use of business incentives. Accordingly, the Government has signed an agreement with the other States (except Queensland) under which the parties agree to minimise State competition for business investment. The States are currently assessing what practical measures should be implemented under this agreement. The Government is also involved in a working group through Heads of Treasuries that is analysing the impact of business incentive schemes.

This Government will continue to work to ensure that its endeavours to support the creation of jobs through business investment are as efficient and effective as possible.

Recommendation 11
The Government establish a comprehensive concessions policy with the aim of promoting greater efficiency, transparency, accountability and equity.

Government Response
The Government **notes** the recommendation.
The Government's review of concessions in the ACT is ongoing.

A three-stage approach was adopted for the review, namely: an inter-agency administrative review of existing concessions; consultations with key stakeholders; and analysis of the existing regime within the framework of identified principles.

In the context of the review, the ACT Government has introduced, as part of the Canberra Social Plan, increased concessions to individuals and families on low incomes, particularly older people, to ease financial pressures; a streamlined energy concession that includes a new concession for gas; and measures for improved energy efficiency of households receiving concessions.

From 1 July 2004 the rates rebate cap, for post 1 July 1997 pensioners, has been increased from $250 to $305.

Additional measures to improve the concessions regime in the ACT will be considered by Government in the near future.

Recommendation 12
The ACT Government write to the Commonwealth Government, asking it:
(1) to review the Commonwealth Grants Commission's insistence that State and Territory Governments maximise their revenue from gambling, and
(2) that any fiscal requirements imposed on States and Territories be informed by social and environmental impact analysis.

Government Response
The Government **does not support** Recommendation 12 (1).
The recommendation reflects a fundamental misunderstanding of the Commonwealth Grants Commission's approach to horizontal fiscal equalisation, its role and responsibilities.

The Commission's role does not require States to maximise their gambling, or for that matter, any other own-source revenue. All revenue and expenditure assessments are policy neutral, that is, a State's own policy does not directly influence its share of the GST pool. An approach requiring the States to follow an average policy, or maximise its revenues, is contrary to the principle of federalism and the independency of the States to pursue their own policies and priorities, and to be accountable to their constituents.

States are not penalised financially by making an above or below average effort to collect various own-source taxes. The ACT's choice to make an above or below average revenue raising effort regarding gambling revenues is thus not influenced by the Commission.

The Government **does not support** Recommendation 12 (2).
It is assumed that the imposition of 'fiscal requirements' refers to the perceived requirement of States to maximise gambling revenues. As highlighted in 12 (1), this perception is incorrect, and there are no fiscal requirements imposed on States and Territories by the Commonwealth Grants Commission.

Recommendation 13
Further research be done to establish:
(1) the extent of problem gambling in the ACT; and
(2) the various cultural, age, gender, socio-economic, and other social attributes of problem gamblers in the ACT, as a means to develop effective tools to both better regulate gambling and to address problem gambling, according to the particular groups of people most at risk in our community. This work would build on the survey, filling in the gaps by investigating in particular problem gambling in the different cultural groups in the ACT community.

Government Response
The Government **does not support** Recommendation 13 (1).
Further research into the extent of problem gambling is currently being undertaken. The Government, through the ACT Gambling and Racing Commission, has established a partnership with the Australian National University for the conduct of

research into gambling and problem gambling. The Commission's on-going program of research includes the following projects:

- "Adolescent Gambling: Prevalence, Risk Factors and Opportunity for Controls and Interventions" - a major project incorporating 20 schools from the Government, Independent and Catholic education systems participating in a survey which has received over 1,000 completed responses. The project is jointly funded by the Commission and a grant from the Australian Research Council Industry Partnership Agreement scheme.
- "The use of ATMs in ACT gaming venues: An Empirical Study".
- "Gaming Machine Accessibility and use in Suburban Canberra: A detailed analysis of the Tuggeranong Valley". This project will survey approximately 2,000 residents and result in the detailed mapping of gaming and non-gaming facility use in the Tuggeranong Valley.
- "Review of the ACT Government's Harm Minimisation Measures – effectiveness of restricting total stake amount (currently $10), operating times (currently 3 hour shutdown per 24 hours) and maximum payout amount on stand-alone machines and progressive jackpots".

These projects build on the information gained from earlier research into the extent of problem gambling in the ACT, namely the July 2001 "Survey of the Nature and Extent of Gambling and Problem Gambling in the ACT" and the August 2001 "ACT Needs Analysis: Gambling Support Services". Both these projects were conducted by the Australian Institute for Gambling Research at the University of Western Sydney.

The Government **does not support** Recommendation 13 (2).
A research project "Help-seeking by Gamblers, Friends and Families in the ACT: A focus on Cultural and Gender Issues" is being undertaken by the Australian National University Centre for Gambling Research. The project addresses the issues identified in this recommendation.

Recommendation 14
The Government address the social problems caused by problem gambling through:
(1) stricter regulation;
(2) evaluation of the current monitoring and enforcement system; and
(3) ensuring that an appropriate amount of gambling revenue goes to a 'problem gambling fund', to fund problem-related gambling services, gambling research and community education.

Government Response
The Government **does not support** Recommendation 14 (1).
The ACT Government, through the Gambling and Racing Commission, has a stringent legislation framework for gambling regulation in place, including the only legislated mandatory Gambling Code of Practice in Australia. The Commission enforces this code and other gambling legislation through regular inspections and audits of all gambling venues. The Commission (board of Commissioners) formally meets on a monthly basis to monitor and oversee all regulatory activity including dealing with disciplinary matters involving providers.

The Government **does not support** Recommendation 14 (2).
The Gambling and Racing Commission has a comprehensive evaluation and review program currently in place. It has completed an extensive review of the *Gaming Machine Act 1987* and presented a number of recommendations to Government. The Government announced in October 2003 its position on the Commission's report and accepted the majority of its recommendations. The drafting of a new Bill has commenced and it is expected that the new legislation will be tabled in May 2004.

The Commission is currently reviewing and evaluating the following legislation:

- *Casino Control Act 1988* – a full review of this Act has commenced with the Commission circulating a discussion paper for public comment in April 2003. Taking into account the submissions received, the Commission has developed an Options Paper for internal consideration. Once all policy options have been considered by the Commission, a policy paper will be developed and circulated for public comment. The Commission's final policy position on significant matters will lead to recommendations to the Minister for the drafting of amendments to the Act.
- *Lotteries Act 1964* and *Pool Betting Act 1964* – the Commission is currently finalising a discussion paper for public circulation to assist in the development of a policy paper and recommendations to the Minister for legislative amendments.
- *Gambling and Racing Control (Code of Practice) Regulations 2002* – the Commission undertook to review the gambling Code of Practice after 12 months of operations. The mandatory Code of Practice commenced in December 2002 with some provisions commencing in May 2003. A discussion paper is in preparation for public circulation to seek input for this review. It is expected that this review will be undertaken during 2004 and will ultimately lead to recommendations to the Minister for amendments to the regulations.
- The review of the *Interactive Gambling Act 1998* remains suspended pending publication of the report on the Commonwealth's review of its Act and subsequent Commonwealth Government response to the review report. The Department of Communications, Information Technology and Arts is yet to respond to a recent enquiry about the timeframe for the release of the review report.

The research project "Review of the ACT Government's Harm Minimisation Measures – effectiveness of restricting total stake amount (currently $10), operating times (currently 3 hour shutdown per 24 hours) and maximum payout amount on stand-alone machines and progressive jackpots" (referred to under Recommendation 13), is a further example of the evaluation of the current monitoring and enforcement system being undertaken by the Government.

The Government **does not support** Recommendation 14 (3).
The Government does not support a policy of revenue hypothecation to create a "problem gambling fund". It is the Government's view that encouragement of industry to develop counselling service partnerships funded by the gambling industries, eg ClubCare, is an effective and responsible approach to addressing this issue.

The ACT Gambling and Racing Commission is funded by budget appropriation to undertake research and community education. Lifeline is funded by the Department of

Disability, Housing and Community Services to provide gambling counselling and other gambling related services. Additionally, the Department funds Care Inc. to provide financial counselling services to a range of clients, which includes a number of people experiencing gambling-related problems.

Recommendation 15
The Government consider the feasibility of incorporating environmental concerns into revenue raising measures through instruments such as 'green usage taxes' that should be consistent with the Office of Sustainability's indicators when issued.

Government Response
The Government **supports** the recommendation.
As a general principle, significant environmental effects should be identified and costed when determining government policy, including the setting of fees and charges for government services. For example, in its consideration of urban transport policy, the Government commissioned a major consultant's report on financial and environmental cost attribution by mode of transport. The report concluded that government revenues from motorists were greater than the financial cost to government, social costs and environmental costs.

The Government agrees to further examination of the appropriate incorporation of environmental effects in revenue raising measures. However, it should be noted that the Government often has limited capacity to apply green usage charges for Constitutional reasons dealing with the levying of excises.

Recommendation 16
The Government explore the possibility of adopting greenhouse performance benchmarks for electricity suppliers similar to those in NSW.

Government Response
The Government **supports** the recommendation.
The Government is considering the adoption of the NSW Greenhouse Gas Abatement Scheme.

By establishing ACT greenhouse performance benchmarks, this Scheme will require electricity retailers operating in the Territory to procure, over time, an increasing component of their product from accredited cleaner or renewable sources. It will be a significant step in assisting the Territory meeting its greenhouse gas reduction targets.