

Senate Economics Legislation Committee
Taxation Laws Amendment (2004 Measures No.7) Bill 2004
Australian Democrats Minority Report

Schedule 1 – The 25 per cent Entrepreneurs' Tax Offset

The Australian Democrats are opposed to Schedule 1. It is bad policy that should be roundly condemned.

There is no evidence whatsoever that Australian micro and small business lack sufficient entrepreneurial spirit or that their numbers have been held back by a lack of entrepreneurial spirit¹. In fact the reverse is the case.

There is a shortage of workers in a number of trades, for example, plumbers, bricklayers, boilermakers and carpenters. No evidence was provided that the Entrepreneurs' Tax Offset would encourage workers into these areas, particularly due to the limitation of a \$75 000 turnover. Evidence provided to the Committee by the Australian Taxation Office indicated that less than a third of plumbers, bricklayers and carpenters would meet the \$75 000 turnover limitation.

This is an untargeted measure that will apply equally to all classes of micro and small business, whether the goods and services they provide are in excess or short supply. Why is this incentive not just targeted at micro and small business areas that are in short supply?

The answer is that it is not an incentive at all, it is a political gift.

There is no evidence that it will further encourage entrepreneurial activity, although prima facie, it will make businesses that fall within the threshold more profitable.

This measure creates yet another class of rent seekers. The Coalition's entire income tax strategy seems to consist of parcelling out income tax concessions to targeted constituencies in an apparent attempt to secure their vote.

This may be in the Coalition's political self-interest but it is not in the national interest.

Fortunately some Coalition backbenchers are starting to rebel against such blatant political pork-barrelling, but their backbench campaign for structural income tax reform is unlikely to extend to crossing the floor on issues like these.

Changes to the Income Tax Act such as this only serve to further complicate an already excessively complicated income tax system.

¹ Refer Committee Hansard Page 7

The legislation may be only 9 pages long but could only be followed by an accountant with a good understanding of taxation law, and is likely to result in additional compliance costs. No estimation has been made of the compliance costs for taxpayers or for the Taxation Office.

All of this serves to again emphasise that what is needed is major structural reform. Tinkering at the edges won't do. The income tax system must be simplified and tax concessions that feed rent seekers and create inequities done away with. Simplifying the system and broadening the income tax base would free up money for genuine tax cuts.

Certainty and equity in income taxation are vital. Certainty and equity should be delivered by a three-part plan phased in over a number of years in order to ensure affordability - in this order with these objectives in mind: a \$20 000 tax-free threshold; indexation to end bracket creep; and possibly, a \$120 000 top rate threshold.

At the very least, the income tax system needs to accept that it is entirely inappropriate to tax income below \$12 500, which is the estimated minimum subsistence income.

In the meantime the priority is to keep addressing the needs of low income workers, increasing their disposable income and living standards, reducing their crippling high effective tax rates, and moving poorer Australians from welfare to work.

The best single way to do this is by raising the tax-free threshold, which has a side benefit of flowing on to all Australian taxpayers, not just a favoured few.

I will be recommending to the Democrats that this bill's complicated, unnecessary and unfair tax cut for a selectively limited group should be shared by all taxpayers.

The evidence presented to the Committee demonstrated that the Entrepreneurs' Tax Offset in this Schedule 1 is unduly complicated. Further, neither the Treasury nor Taxation Office representatives could demonstrate any measurable economic or social benefit from the proposal.

Our preference is to redirect the \$400 million a year Treasury-estimated cost of this proposal to increase the tax-free threshold from \$6 000 to \$6 260.

At an estimated cost of \$398 million a year, this would provide Australia's nearly 9 million taxpayers with a \$44.20 a year tax cut or around 85 cents a week.

The 2003 budget tax cuts were referred to as the 'sandwich and milkshake' tax cuts; our redirection of this unnecessary, ill conceived proposal will provide all Australians with a 'freddo frog' tax cut.

We are also concerned by the possible tax avoidance opportunities as the legislation makes it clear that a taxpayer may claim more than one tax offset. Arguably, a relatively well-off taxpayer could restructure their affairs so that they run a diverse

range of businesses, each with turnover under \$75 000, and claim an Entrepreneurs' Tax Offset on each.

Alternatively, the legislation provides yet more encouragement for genuine employees to try and contrive to avoid the PAYG system. Why could anyone think that would be in the national interest?

Questioning from Senator Watson also demonstrated that there could be a comparative price advantage available to businesses that could utilise the Tax Offset. Generally, we would prefer a level playing field in all aspects of business.

It has often been stated that the three elements of an ideal tax system are efficiency, simplicity and equity. In our opinion, the Entrepreneurs' Tax Offset meets none of these criteria and, arguably, makes all three worse.

The Australian Democrats will be opposing the Entrepreneurs' Tax Offset contained in Schedule 1 of the Tax Laws Amendment (2004 Measures No.7) Bill 2004 and introducing an amendment to provide an income tax cut for all Australian taxpayers.

Schedule 5 – Petroleum Exploration Incentive

In view of the nature of the multi-billion energy industry, when I first saw the estimated cost of this incentive of \$17 million, I assumed it would be only of minor benefit to the oil and gas prospecting industry. The evidence was to the contrary², however it must be considered that little of the discussion explored the degree to which Australia's long term greenhouse mitigation costs may increase as a result of the initial \$17 million investment in fossil fuel exploration.

In contrast the Renewable Energy Generators of Australia Ltd thought the \$17 million too small an incentive for them, which also took me by surprise.³

The Australian Democrats have a history of supporting prospecting and research and development measures. We opposed the Governments cost-cutting in this area, and later data has proved us right.⁴

We do not oppose Schedule 5 that allows a 150 per cent uplift to certain exploration expenditure conducted in the first term of an exploration permit in a designated frontier area.

As evidence suggests that this incentive will benefit prospecting for gas as well as other fossil fuels, there is potential for increased use of this less damaging energy source.⁵

² Refer Committee Hansard page 18

³ Refer Committee Hansard page 21

⁴ Refer Committee Hansard page 17

⁵ Refer Committee Hansard Page 17

I for one would like to see much more gas found, however the Australian Democrats have also vigorously advocated limitations on exploration close to environmentally sensitive sites such as the Great Barrier Reef World Heritage Area. The Democrats remain of the firm belief that areas such as the Reef whose tourism income may be permanently and irreversibly damaged by large-scale petroleum exploration should be closed to petroleum exploration and extraction.

Natural gas is the major alternative to very harmful coal. The more natural gas Australia can find, use in Australia, and export, to reduce the use of coal in Australia and other countries (particularly our large regional neighbours), the better.

While gas is preferable to coal and to oil we must remember that it is also a finite resource and also contributes significantly to CO₂ and global warming levels. Therefore we should talk about it as a transition fuel, not a joyous opportunity to use with abandon.

What is necessary as a balancing item is that this Government, that has had a minimalist approach to encouraging renewable energy, matches this incentive for the oil and gas industry with the same amount of \$17 million for renewable energy.

Senator Andrew Murray
Australian Democrats Taxation Spokesperson and
Senator for Western Australia