LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into revenue raising issues in the ACT)

Members:

MR B SMYTH (The Chair)
MS K MacDONALD (The Deputy Chair)
MS K TUCKER

TRANSCRIPT OF EVIDENCE

CANBERRA

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Secretary to the committee:
Ms S Mikac (Ph: 6205 0136)

By authority of the Legislative Assembly for the Australian Capital Territory)

Submissions, answers to questions on notice and other documents relevant to this inquiry which have been authorised for publication by the committee may be obtained from the committee office of the Legislative Assembly (Ph: 6205 0127).

The committee met at 2.06 pm.

THE CHAIR: You should understand that these hearings are legal proceedings of the Legislative Assembly, protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means that you are protected from certain legal actions, such as being sued for defamation for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

And if you could please give your name, for recognition purposes, for the Hansard recorders, we might begin.

JULIE SMITH was called.

Dr Smith: My name is Julie Smith.

THE CHAIR: Julie, would you like to make an opening statement?

Dr Smith: I've got some notes here, which I'm happy to leave with you to copy. They're on scrap paper, but I could perhaps ask the secretary to make a copy for you. I've taken the terms of reference in a fairly broad sense. I am going to run through an overview of state and territory revenue raising issues, criteria and strategies to look at what impact the territory can have on social and environmental goals through this revenue raising and to address the role and efficacy of tax incentives.

My background, as you may know, is in tax policy analysis and history, including gambling tax, land tax and federal-state finances. I love federal-state finances; they're fascinating.

The first point I'd make is that prudent borrowing can be a valid revenue strategy for the territory. The ACT has got virtually no debt in relation to GDP in other states and territories. Debt is appropriate for investments with adequate social returns. Investment includes, in human capital, some education and health spending—and I can point you to the reference in the Commonwealth Treasury document that verifies that.

Public investments have been shown, again by academic research, to be complementary to private investments in enhancing productivity. It's not a question of public or private; it's a question that public investment helps private investment. The other thing I noted is that state government investments have been declining in recent decades because of perceived limits on borrowing.

Coming to the second point I'd make, you'll be aware of the comment of the former Premier of Queensland that the only good tax is a Commonwealth tax. I think that with the changes to the GST in 2000, it really is true that Commonwealth taxation is indeed the best taxation. Since 2000 how to deal with those changes have taken us into complex issues of equity, efficiency and accountability in Commonwealth-state financial relations. I won't address that here, but I can refer you to stuff I've done on that.

Most broad-based and progressive taxes are now with the Commonwealth or at least administered by them, and they include income tax and most consumption taxation. The general strategy I would advocate in that federal finance area is that we start thinking about those revenues as national revenues and not Commonwealth revenues. I make that statement from the research I've done over a long period of time on the evolution of those arrangements and of tax policy considerations at the federal level.

The third point I'd make is that tax competition is dumb. It's a dumb strategy for the ACT; it's a race to the bottom the ACT cannot win. If we cut our taxes to attract business and investment here, other states have got much greater revenue capacity to cut theirs. It's a dumb strategy. It's actually more in the ACT's interest to strongly support recent Commonwealth-state negotiations to reduce tax competition between states and territories.

One of the most poignant examples of this is the gambling tax one, where the ACT and other states engaged in a competition for gambling revenues. The way they did that was to cut gambling tax rates and provide various concessions. What we ended up with were large social costs from expanded gambling and relatively low revenues—lost revenues.

The fourth point I'd make is that territory taxes are only weak tools for most social and environmental goals, a point following up what I said earlier that the Commonwealth has most of the taxing tools. Most state governments have been shown to be either regressive or, at best, proportional. There is not much scope for strong progressivity in either the design or the tax mix, and often attempts that state governments make to design progressivity into their systems can be counterproductive or can add unnecessary complexity. There's a space in state tax systems for progressive rates, but it's a limited place. The same goes for the mix of taxes. Again, states don't have a very wide range of progressive type taxes, so there's limited scope there.

The territory mainly influences income distribution through its public spending and how it uses its regulatory powers. In fact, tax policy mightn't be the best policy instrument for some public purposes. You might better achieve distributive public policy goals through other policy instruments, such as tighter gambling regulations, which is a better approach than higher taxes to tax gambling out of existence; direct budget grant programs, which can be better designed than taxes to encourage jobs or investment; and public investment spending on improving the health and education of disadvantaged groups, which is probably the most efficient way to influence equity within the territory budget and policies.

The sixth point I'd make is that tax incentives are bad public policy—and this goes to the core of the terms of reference. I recently prepared a paper, to be published shortly, for the Commonwealth Parliamentary Library on tax expenditures, which is another name for tax concessions or tax incentives. I won't go into that a lot, but I will summarise the problems—using the language "tax incentives", "tax expenditures" and "tax concessions" interchangeably.

These undermine tax system integrity mainly in tax avoidance and unethical behaviour. They reduce budgetary control and efficient fiscal management because they tend to be open-ended and highly volatile. You can't control them in the same way that Treasury can control direct spending programs, so you tend to get expenditure blow-outs—or revenue cost blow-outs in this case. There is no annual scrutiny of the level of those concessions, because it is money you don't collect rather than money you spend.

They reduce the efficiency of program delivery. You can design a much better program to target jobs or investment if you actually have a bunch of people sit down and try and design it through a grants program than if you try and reshape the tax system to achieve the same goals. You often can't. There is a lack of budget scrutiny and transparency. Finally—again, gambling taxation is a good example—tax concessions and tax expenditures undermine democratic accountability and trust in the government's system.

From an economic point of view, tax incentives and tax concessions have adverse efficiency effects, favouring some activities and taxpayers over others and requiring higher rates of tax on the remainder of the taxpayers for activities. Key examples for the territory are payroll tax, land revenues and gambling tax. Tax expenditures also have adverse equity effects in terms of reduced revenue for redistributive programs; increased regressivity of the revenue base—by and large because tax concessions are usually given to the politically powerful and not to the people who most need them; and less horizontal equity between comparable activities and taxpayers.

I will now outline a few areas and things worth doing to improve the revenue raising system. The first is to evaluate the scope for public borrowing to fund social investment and infrastructure spending. The second is to pursue the Commonwealth. What I mean there specifically is not just a loan but opportunities that probably haven't been presented for a long time for the state governments to join forces and argue with the Commonwealth.

States have a very strong power, in the sense of their spending and regulatory role, to negotiate with the Commonwealth, and as a unit they can achieve a lot more than if one individual territory or state approaches them. That's an area where it's important to start viewing the national tax system as a national revenue system and not a Commonwealth tax system and dole for the states, which is the way the Commonwealth would like to view it.

It's also in the ACT's interest to pursue the Commonwealth in the sense of keeping a close eye, as we do, on Commonwealth Grants Commission methodologies. We have more than the usual interest in proper cost disability type issues in terms of the Commonwealth's own activities in the ACT, and we need to make sure that the costs of the ACT running the national capital are not hidden costs to the residents and businesses of the territory. I haven't looked closely at the recent CGC methodologies, but I think it's an activity that the ACT Treasury spends a reasonable amount of useful time on—trying to identify ways that we are fully recompensed.

I'd also flag that there are what I'd call "tax-shifting strategies". If the territory taxes are deductible expenses under the Commonwealth income tax, or corporate tax, that means the revenue cost—we get revenue back from the Commonwealth; for example, if there's a charge on ACT land which is deductible for the purposes of the Commonwealth corporate tax—is deducted by the Commonwealth from their corporate tax and the Commonwealth pays half the cost. Tax shifting.

Other areas that I'll develop a bit further in a minute are petrol franchise, or fuel tax, indexation and, finally, the gambling tax revenue replacement package. Key taxes for the ACT and key sources of revenue are obviously land tax and payroll tax. That's the same for all the states and territories. I would argue that you can get more effective, transparent and accountable use of the public revenue system by replacing payroll and land tax concessions and incentives with direct budget grant programs.

If the environmental sector has to apply for grants for this and apply for grants for that, there's no reason why other sectors should be able to get theirs through the back door without the same accountability requirements.

THE CHAIR: Sorry, can you say that again? Land and payroll tax?

Dr Smith: The concessions—the tax expenditures equivalent to direct expenditures. If you're going to be even-handed in the way you hand out public resources—

THE CHAIR: Transparency.

Dr Smith: Yes, the transparency and accountability issues. I've yet to see recipients of payroll tax concessions or land tax concessions being required to put in quarterly progress reports, or reports on how they're spending the money, in order to get them.

A point that I picked up in the ACT Treasury submission, which I generally thought was a good submission, was that the ACT has few resources to tax—few mineral resources, and so on. But I'd argue that, while the ACT doesn't have mineral resources and it does have other disadvantages, it has a comparative advantage in the sense that it owns the land. It has publicly owned land and development rights.

While it's all very well to say we don't have minerals, we do have other assets, which we should be more fully exploiting from a revenue point of view. I know we haven't for the last 20 or 30 years but, as land revenues start to decline as the price of land goes up, it's an area that we really should be looking at for a number of reasons. I should refer you to a paper by Professor John Freebairn of the University of Melbourne on this issue. He said:

> In principle, a broad based land tax—

and this applies to land tax revenues—

> entails minimal efficiency costs, and on this count alone it is an under-utilised tax.

I'd suggest that the ACT, taking into account the comparative advantage it has in land ownership and town planning, expand land revenues via an integrated strategy. By that I mean that, if you're taxing the same base through public land development, betterment or change-of-use charges, land tax and rates, you need to co-ordinate those so that you don't have overlap and duplication. That doesn't mean you can't have a number of different mechanisms for taxing different aspects of the returns from land; but you do need to co-ordinate them to make sure that they're well integrated.

A second element of revenue strategy for the ACT is expanding payroll tax revenues. Approximately half of the payroll tax base is not taxed, if you look at the base being wages, salaries, fringe benefits and so on. In the ACT, although we perform fairly well in terms of revenue effort, on payroll tax we seem to have a policy of trying to attract small business from over the border by having very high thresholds. I'm not actually sure of who we're trying to favour by doing that—maybe the housing industry. What that does is distort the nature of activity—the people who are taxed—create inequities and reduce revenue for the purposes that the territory can usefully spend it on.

I think you'll find it's a pretty universal argument that you'll be hearing from academic tax economists: you need to widen the base of the payroll tax. I would agree with Howard Pender's submission, in that—as I said before, tax competition is a dumb strategy for the ACT—we should not be trying to keep our tax rates lower than New South Wales. Neither should we try and make them higher; that would be foolish. It's fruitless to try and keep them lower, so we should keep them in line with New South Wales.

I would argue that pursuing land revenue and payroll tax reform would allow you to use those extra revenues for reducing the general rate of taxation on these bases, with advantages to other taxpayers of equity and efficiency. Because you don't have the same distortions in activity, you could use them to replace other taxes. For example, you might want to lower some parts of conveyancing taxes or transaction taxes—stamp duties and so on—or you might want to use the money to increase spending on public services. But until you make those reforms, you don't have those options.

I will now talk about gambling taxes. I like writing about gambling taxes, and I like talking about gambling taxes. I didn't find them very interesting until I researched them, and now I find them a fascinating area. I've written a book on them, and an article published in the *Australian Economic Review* about the GST reforms developed some of the points that I'm going to make now.

Gambling taxation is unusual in that the government creates the base. You start off with the presumption that gambling is illegal unless the government legitimises it or legalises it. The way the government regulates gambling defines the size of the tax base and the gambling industry. Over the nineties, governments deregulated gambling, massively expanding the gambling base and the tax base, and there was a huge increase in gambling tax revenue. That was not because rates were put up but because the gambling tax base expanded so greatly—with huge social costs.

Public opinion and to some extent public policy slowed it down a bit, but I would argue that governments should be more pro-active in using their regulatory tools to shrink the gambling tax base from where it is now—it's bigger than it should be—and to shrink the social costs associated with problem gambling. Approximately a third of the revenue from gambling comes from the 2 per cent of people who are addicts.

I would also disagree at this point, too, with the Treasury's submission that an appropriate mechanism for returning a share of gambling profits to the community is the arrangement we have in the ACT at present, where the clubs make community contributions. I don't think that's an appropriate arrangement. Most other states don't have arrangements like that. I think those club and gaming tax concessions to the greater public should be ended. That would produce better revenue for the ACT, it would produce better transparency and it would produce reduced distortion in terms of clubs versus hotel activity.

I would also suggest considering earmarking revenues. As I said, a third of gambling revenues come from 2 per cent of gamblers, which suggests to me that at least 30 per cent of your revenues should be going back to fix up the problem you've created. There's always the issue of fungibility in revenues: you put more money in through a hypothecated revenue and the government spends less money somewhere else on it. But, from a political point of view, it's a strategy worth considering. It sometimes works.

You could also earmark gambling revenues. It's very common in the States to earmark gambling revenues for social benefit type funds because of the huge social disquiet about gambling. It's often politically expedient to earmark the revenues to use for moral public purposes rather than harmful ones.

This is an example of an area where you need a national tax policy. To the extent that you deliberately set out to reduce your revenues from gambling by shrinking the amount of the gambling tax base by shrinking the gambling industry, it would be appropriate to use higher revenues from the Commonwealth's tax base to fund that. One example is that, when the GST was set up, part of the agreement with the states and the territories was that gambling taxes be reduced commensurately with the increase of the GST.

The problem I have, as I argued in my paper in the *Economic Review*, is that those arrangements lacked any transparency or accountability criteria to reduce gambling tax revenues. Gambling tax revenues have been reduced, but we don't know whether that's through increasing concessions to the favoured friends of the government—whether it's Mr Packer and his casino or someone else—or whether it's through reducing the base.

Obviously, there's a lot going on behind the scenes, but there were no clear criteria for how that reduction in gambling tax revenue was to be achieved. I think we need a strategy along the lines I've just talked about. As I say, the other part of that is that the Commonwealth revenue should fund replacing that state revenue; the Commonwealth has the good taxes to do that.

On the subject of motor taxes, Howard Pender's got quite a bit to say, and his expertise in this area is greater than mine. You could restructure ACT motor taxes for the benefit of efficiency, equity and environment. In that sort of strategy, I'd emphasise registration fees over stamp duties, although there is a role for stamp duty taxes on transfers of cars and property. There is a limited role for progressive taxation there—for high value cars and high value properties.

I would emphasise registration fees rather than transfer taxes, for efficiency reasons. I'd also emphasise petrol use and congestion taxes over registration fees, and I would argue that on equity grounds. Rego fees are access lump-sum fees, and it's difficult for people to afford those upfront costs on low incomes. Therefore, it's more equitable to tax them on the use of the vehicle and its congestion or emission effects. That's the direction.

I'll come back to the Commonwealth here. I would argue to pressure the Commonwealth government on fuel tax indexation and revenues from that. When the Commonwealth government chose, a year or so ago, just before the last election, to end the inflation indexation of fuel taxation, it was a very political decision. It wasn't based on any economic or public policy analysis. The consequence of that was that payments to the states were cut. The states paid for that abandonment of the indexation of fuel tax.

There's been an inquiry into that decision, and the inquiry pointed to the deficiencies in it. It's argued that indexation is desirable for fuel taxes on efficiency, equity and environmental grounds. That's another area where I think the states have an interest in arguing with the Commonwealth about what the right policies are for national tax revenue.

I'll end with a few concluding remarks on the challenge. Commonwealth taxation is the best taxation; prudent borrowing is okay; state tax competition's a dumb strategy; tax expenditures are bad public policy; spending on regulation, not tax policy, is our best redistributional or social justice tool at the territory level; and fewer revenue concessions, more payroll and land revenues, reformed gambling policies and restructured motor taxes can improve ACT revenue.

I'll quote Professor Freebairn again here. He's a widely regarded and highly regarded tax expert and economist. He commented:

> Reforms to broaden both the land tax and payroll tax bases would improve efficiency and simplicity, but the redistributative effects will lead to political resistance from those now benefiting from the exemptions… Political resistance to the redistributional effects of changes in the mix of revenue collected from land tax—

I'd add here, "and land revenues" in the ACT context—

> and from payroll tax may be sufficient to block reform proposals involving large changes in the current mix of these two taxes.

The challenge, I guess, is to get the balance right and to prove the experts wrong.

THE CHAIR: Thank you very much. Can we get copies of your article and the title of your book?

MS TUCKER: And the Freebairn? Can we copy that?

THE CHAIR: And the Freebairn document, if we may. We're going to run out of time because the Treasurer is due soon.

MS MacDONALD: I have one question. In regard to what you were saying about the gambling base being too big now, are you talking across Australia?

Dr Smith: It applies generally. The expansion of gambling tax revenues over the 1990s is documented in here. It mainly arose from the expansion of poker machine licenses and, to a lesser extent, casinos. Different states pursued different strategies for that. For example, Western Australia doesn't have any poker machines outside the casino. In other places it's contested between the casinos and the clubs about who has more poker machines. It's Australia wide but it is also in the ACT.

THE CHAIR: The Grants Commission said that we're underachieving in gambling taxes and we should do more to raise them. As you rightly point out, that comes with a social consequence.

Dr Smith: It depends on how you're collecting them. This is a complex area and a complex argument. We underperform in collecting gambling tax because of the concessions that are provided to clubs. We could remove those concessions and increase our revenue base. I don't think that would be undesirable. What I think is undesirable is expanding the revenue base by allowing more poker machines. By expanding the base, your revenues will increase.

Raising the tax revenue by abolishing concessions is a good direction to go in; raising the tax rates isn't necessarily a good way to go because that would be a regressive tax. But expanding the gambling tax base through more casinos, gaming machines and poker machines is a bad way to go. So, I say, "Shrink the base and regulate it! Reduce the number of poker machines out there, whether they be in clubs or hotels, and remove the concessions from clubs! I wouldn't argue for an increase in rates—

MS MacDONALD: That's just it! They're only in clubs in the ACT.

Dr Smith: In the ACT they are. That's right.

MS MacDONALD: They're not in the hotels and they're not in the casino, unlike other states. Hence the question.

Dr Smith: That's an issue of gambling policy that's worth debating, and I know it's being debated.

THE CHAIR: Weekly. Are we able to get a photocopy or copy of your presentation?

Dr Smith: Yes.

THE CHAIR: Dr Smith, thank you very much.

TED QUINLAN and

MRS TU PHAM

were called.

THE CHAIR: Mrs Pham, would you state the capacity in which you appear for Hansard?

Mrs Pham: My name is Tu Pham. I am Deputy Chief Executive, Department of Treasury.

THE CHAIR: Mr Treasurer, would you like to make an opening submission or presentation to the committee?

Mr Quinlan: I don't think so. The government has put in a submission which is in large part background and informative. Four or five days ahead of the budget, we wouldn't really want to canvas too many revenue raising issues as to what might be included or left out. I welcome the opportunity to be here; I think having this committee is a very constructive thing to do.

MS TUCKER: If you can't talk about what you're going to do, maybe we should postpone it.

Mr Quinlan: About what we're going to do in the budget?

MS TUCKER: I mean generally your government's view of revenue raising.

Mr Quinlan: I can talk about some principles, if you like.

THE CHAIR: We will certainly attempt to avoid the budget.

Mr Quinlan: Yes.

THE CHAIR: Perhaps we can have a talk in general principles. For me, one of the interesting things is: are there other sources of revenue? Dr Smith says that our options are limited. Has Treasury explored other options for revenue raising? Are there taxes in other states that we don't have that perhaps we could have? Are there taxes that we have that we should get rid of?

Mr Quinlan: Yes.

THE CHAIR: Can we expand on that?

Mr Quinlan: That's something we would do post budget because it would give rise to some difficulty in containing the conversation so that it does not anticipate the budget. You can be assured that, as we go through the budget cycle each year, Treasury canvasses all of the potential avenues for revenue initiatives that a government might take and generally presents them to government for government to make its judgements—be they financial judgements or political judgements—as to whether or not those taxes might be adopted.

But let me say this much: there are very few taxes that are levied elsewhere that might be levied in the ACT.

THE CHAIR: Are we allowed to know what those taxes are?

Mr Quinlan: We'll take that on notice and give the committee that list next week—with a tick or a cross—

THE CHAIR: In the budget box?

Mr Quinlan: and it will be up to date.

MS TUCKER: I've got some general questions. Revenue forgone through concessions and incentives is something that we've discussed before. What's your government's analysis of the social benefit of the concessions that are offered through, for example, the threshold for payroll tax? How effective an expenditure of public money is that?

Mr Quinlan: That's going to vary in every case. We have a business incentive scheme. That incentive scheme generally in recent years, with the previous government and this government, has ceased with cash payments but has continued with land grant concessions from time to time and payroll tax concessions.

During the process for a business incentive package, whatever it might be, we generally call upon expertise from outside the government as well. Each case will be evaluated on its own merits because the number will vary. Can I put a finger on a particular number that says this is what we expect out of each dollar forgone in terms of jobs? I can't off the top of my head. I could try to give the committee some indication of that through the analysis of previous packages provided.

The government accepts that in the past there have been bargaining processes between jurisdictions, and businesses do come to government and say they want this form of help or that form of assistance or they won't carry out their business here; they'll go take it elsewhere. I can advise that at the last meeting of treasurers it was agreed by all states except Queensland that states would move to eliminate that type of competition. There is already an agreement in place between Victoria and New South Wales, and they believe that it's operating satisfactorily for them.

It's very difficult to draw a line sometimes between what is a straight business venture and what is an event. It's difficult to draw a line between what is competition between states and what may be necessary incentives to keep businesses in Australia. For example, South Australia provides concessions to Toyota Motor Corporation, but they're not providing those concessions to keep them in South Australia. They certainly want them in South Australia, but if those concessions were not provided, they would probably find that Toyota wouldn't operate in Australia at all. Similarly, Victoria supports the Ford Motor Company.

Those concessions are the business of the states; it is their choice. It is not regarded as interstate competition at this point. There's going to be a whole gradation of incentive provided to business, below those two, where it would be difficult to draw a discrete line between when it's state-to-state competition and when it's the incentive necessary to have that business do its business.

States look upon the money they provide, or the money they forgo, as an investment in revenue generation and contribution in terms of employment, and they would generally expect that on any analysis there's a positive impact for the community as a result of the particular deal done.

MS TUCKER: I guess the question is about that analysis in terms of accountability for this amount of public money. I remember significant amounts of money going, not from your government but from the previous government, to major companies—Telstra, from memory. That was over $30 million over three or four years.

The previous witness was asking why it is that we have that less accountable mechanism in place for businesses and why we can't replace that with grants—of land or whatever—that business can apply for but that can then be structured within the normal accountability mechanisms other organisations that receive government money have to operate within.

Mr Quinlan: I've just been advised that the heavy hitters in payroll concessions were EDS. EDS were the IT firm that managed the old taxation chain. I'm fairly certain that the concessions offered were never actually paid at the end of the day because they didn't get anywhere near the level of employment committed. IBM global services, Telstra—those were deals done before this government came into place of course—and the Canberra Raiders, of all people.

I am not going to defend any of those in particular, but we are probably still in the business of considering payroll tax concessions. The one thing about the payroll tax concession is that, if there are—and there should be—set milestones for the company to reach before they receive their benefit, it will have the effect that they have to achieve the employment numbers in order to gain the concession.

If it's land and it's a grant, or if it's cash and it's a grant, that's often done upfront and it may be that the company then doesn't meet the milestone. If it's cash and it's given on a drip-feed, then it's probably not very useful to the company because they really want money to set up if they're looking for cash.

I don't think that payroll tax concessions are an inefficient way of doing this because they are a way of having the concession flow with the growth of the company and its contribution to the employment base in the territory. It's a concession as you go.

THE CHAIR: The point made by the previous speaker is that it's not transparent and perhaps we should be charging them and then giving them a grant in exchange, so that you actually know how much you collect from your payroll tax base and how much you've given away. Is that something the government is considering?

Mr Quinlan: The performance against business incentive packages is reported, and has been reported over a number of years as it's been an Assembly requirement, in the annual report of the Chief Minister's Department. No, it's not in the accounting statements, and that's a point worth considering. I don't know if we're going to wrestle with transparency anyway while we've got relatively complex accounting systems, which we have. How do you make them transparent to people?

I'd have thought that the level of reporting in the Chief Minister's Department Annual Report is fairly detailed and says a lot more than a couple of entries in and out of the operating statement, which under normal circumstances wouldn't warrant a line of their own. We aggregate the operating statement and the balance sheet down to a number of lines, otherwise it just becomes page after page.

I'm happy to consider any sensible recommendation that says that this should be clearly shown somewhere. You can't go and hit people over the head with it, but it can be in the report, in the notes attaching to the in and out of the accounts. It's not a great chore, but I don't know what it achieves.

THE CHAIR: At paragraph 7.8 on page 10 of your submission you say that the ACT is not in agreement with all of the aspects of the methodologies adopted by the Grants Commission. What are we doing to put that lack of faith in their methodologies to the Commonwealth?

Mr Quinlan: We've certainly put our case, as successive governments have done, as strongly as possible. The differences are discussed at treasurers council, directly with the federal Treasurer. I'm sure he takes a lot of notice; he just doesn't show it.

THE CHAIR: So with the potential $15 million shortfall, what are we doing to convince the Commonwealth that we deserve that money or that it shouldn't be removed from our coffers?

Mr Quinlan: There are two lumps of $15 million. There's the $15 million that is called special fiscal assistance. Is that right?

TU PHAM was called.

Mrs Pham: It's called special fiscal needs.

Mr Quinlan: We understand that is just a matter of administration, and at this stage we're working purely on the assumption that that will be forthcoming once the Commonwealth has settled on what it might give us in relation to bushfires—because it's bundled up with that.

In relation to the $15 million decline in our anticipated receipts for this year, in large part we can bemoan the fact, but in large part we have to accept that, unless we've got genuine concern with the methodology that's used, we may have to cop it. Where we've had changes in the Grants Commission has largely been based on population variances and the input of disposable income. It's under the banner of disposable income that the Grants Commission calculated that our revenue effort in terms of land taxes, payroll taxes and gambling taxes—I think they're the three—could be improved. We could do better ourselves.

You will be aware that the Grants Commission process is something of a moveable feast, something of a refinement. It changed considerably in the ACT's favour in about 1999, which made a whole difference to where the territory was in terms of its financial position. As far as we're concerned at the moment, it's not a bad set-up. It's just that we have copped a bit of a hit this year.

Given our other relativities, which give us a multiplier of more than one—it is about 1.14—we don't view it as being a bad system. In fact, the major issue discussed with the Grants Commission itself this year was its consideration that a lot more of the assistance it's given to the ACT to offset the costs of being the national capital and to offset the way Canberra's set up—which is factored into its formula—should be taken out of the ordinary financial systems grants process and made as direct payments, much like the other fiscal needs. That was a consideration they had on their plate but didn't move on this year. They're virtually saying that that shouldn't come out of the pool that goes to the states; that should be—

THE CHAIR: Paid for by the Commonwealth.

Mr Quinlan: Yes, directly. We don't want to go there because that makes it more of a decision of whim from time to time. We want to argue more in that area, in terms of the Grants Commission process, than attack a lot of their factors. There's a whole report, which I'm sure is available to the committee, on the case that was put for the ACT, and then there's the Grants Commission report on that.

Overall, I have to say that the ACT is not doing all that badly with the Grants Commission, it's just that changes elsewhere can affect us because there's a pool growth and there are relativity changes. That flows through because it's a pool shared.

THE CHAIR: I understand that one of the reasons we did so well with the Grants Commission in 1999 was that the then Chief Minister and deputy chief actually fronted the grants commissioners—the first time politicians had ever done such a thing. Is a program being undertaken of selling the ACT to the Grants Commission, or are we just relying on treasurers conferences?

Mr Quinlan: I've certainly met with the Grants Commission and been through our report with them chapter by chapter this year.

THE CHAIR: Also on page 10 you've got the chart that details the different relativities from the revenue raising effort. The difference is quite small compared to the national average, but three are quite large. At "other taxes" we only collected 76 per cent of the rate of an assumed 100 per cent. What does "other taxes" cover?

Mr Quinlan: I'll hand that to our tax whiz.

Mrs Pham: I think "other taxes" covers the business transaction tax and ambulance levy, these being a very minor category within our budget papers.

THE CHAIR: Is the impact of that grouping on the final amounts to the Grants Commission quite small?

Mrs Pham: Yes.

THE CHAIR: The next one that has a major discrepancy is gambling taxation. We collected 68 per cent of an assumed 100 per cent. How big an impact does that have on the money that we will get from the Grants Commission?

Mr Quinlan: Well it has an impact, as you're aware. The Grants Commission is quite detached from the question of gambling good, gambling bad. In relative terms they've said that the collection in the ACT is lower than other states. Where we go from there is a series of critical decisions.

THE CHAIR: I understand that. The question is, given that in the "other taxes" category the amount of revenue we would get is so small—

Mr Quinlan: I don't know what the proportion is. If you want the proportions of those taxes as they fit in our budget, we'll get them for you. Or do you want to try and answer that now, Mrs Pham?

Mrs Pham: The impact of our below-standard effort on gambling tax is about $18 million in the Commonwealth Grants Commission's assessment. The ACT has a higher disposable income, so they use the higher household disposable income as a basis on which to calculate. According to the Grants Commission, we do not maximise our effort to raise gambling tax. Even with our very good base, they think the calculation is about $18 million below standard.

THE CHAIR: The third category is the financial transaction tax, as we only collected 82 per cent of the assumed 100 per cent. What's the proportionality of that?

Mrs Pham: If you give me a minute, I will go through the figures for that tax.

THE CHAIR: We're happy to add the tables later if you want to give it as a proportion.

Mr Quinlan: We were referring to tables. We'll get that for you.

MS TUCKER: On gambling tax, can you explain to the committee—or take this on notice—exactly what concessions are offered to the clubs industry? You're collecting tax from them, but what concessions, if any, are they given?

Mr Quinlan: There's a tax structure that provides tax concession to smaller clubs. Some of them are virtually not paying tax. They have a low revenue take.

MS TUCKER: Right across the board—you can take this on notice; it's a simple answer—I'm interested to know what concessions go to clubs right from the beginning, from scratch, from land and everything. Could you give us an analysis of that, or is there no analysis to give?

Mrs Pham: There is no concession provided to clubs in terms of general taxes. The current gambling tax system is designed in such a way that smaller clubs will pay less tax, in terms of the marginal tax rate on their gross gambling revenue income, compared to larger clubs.

These are very small subsidies in terms of GST refund to smaller clubs. Before GST, for example, certain clubs, because their gambling revenue was so small, did not pay any gambling tax to the ACT. When the GST was introduced, they had to pay 10 per cent of their gambling revenue. Hence, these clubs are worse off under the new GST arrangements. There was an arrangement at the time to refund some of the GST paid by small clubs.

MS TUCKER: By the ACT government?

Mrs Pham: By the ACT government.

MS TUCKER: How much?

Mrs Pham: The amount was very small: about $200,000. That was not paid directly by the government but paid by larger clubs. We have a system of refunding the GST to the larger clubs, but a little bit less than the full amount, so that we can use that difference to subsidise the GST refund to smaller clubs. That arrangement is actually revenue neutral for the ACT government, but the amount is so small that larger clubs are prepared to enter the agreement to subsidise the GST refund to smaller clubs.

MS TUCKER: I can't remember the detail. What does the neutrality principle mean in terms of tax?

Mrs Pham: That relates to the Commonwealth tax and not the ACT tax. It has some concessions with the Commonwealth government regarding income tax, but that's not the ACT government tax concession.

MS TUCKER: What about land?

Mr Quinlan: You'll probably find that, way back, a lot of clubs were granted land on concessional leases.

MS TUCKER: You seem to say in your submission that the community benefit payments from clubs are an appropriate response to the social harm that comes from gambling. As you know, there’s been a proposal for quite a long time to have a levy across all gambling that would go straight into government coffers. There have been different views about how it should be spent. Some held the strong view that it should go directly toward the social harm that results from gambling, and others were interested in it being spent more broadly. Then people were concerned that, if you did that, there would be even more reliance on that revenue for fundamental services.

The government sphere appears to not accept that levy idea, and you’ve capped even the community benefit at quite a low level when you consider that a lot of the revenue that comes in from gambling is as a result of a small percentage of gamblers. When you’re looking at revenue, why is it that you’re not prepared for the government to take that money as part of your money to spend, rather than letting clubs determine social need?

Mr Quinlan: Because many of the clubs are already involved. When this became a requirement, it didn’t change the lives of a lot of the clubs anyway, because they were already involved in what you might consider a broader than appropriate contribution to the community. I believe that a contribution to sport is a contribution to community. We’ve got a structure, probably more than anywhere else, other than some of the New South Wales towns, of clubs being part of the community structure.

MS TUCKER: I understand that argument.

Mr Quinlan: Whether you go there or not, junior sport is a vehicle for a lot of people to provide volunteer hours in order to facilitate a lot of community activity, which is not necessarily a contribution to raw charity. I’ve been involved in clubs, from the establishment of a junior football club through to turning it into a football club out at Weston, for example.

There are people who have, and still do, put in many hours of volunteer work for a cause. It is the one they believe in; it’s the community activity they believe in. If we get the mindset that clubs are money-making businesses and ought to be taxed within an inch of their survival and their money should go to the community according to the rules set by us, you’re not going to get that. You’re not going to get all that contribution; you’re not going to get the enthusiasm that’s out there. It cycles through, but you’re just not going to get it.

MS TUCKER: You’ll still get people using poker machines.

Mr Quinlan: Yes, you will.

MS TUCKER: Can I just make this one point? I’m not saying that clubs, sport, voluntary activity or community development aren’t important. The problem is that, if about 30 per cent of the revenue is coming from the problem 2 or 3 per cent of the gamblers, very few of the clubs are putting it into problem gambling, although they are certainly saying that they’re promoting a responsible service. But the proportion of money being raised by clubs for these other good—I’m not arguing with you—activities is out of sync with the social harm that’s being carried more broadly by the public purse.

My question is really about how you come up with the result we've got now, where such a small percentage is going to social need and where that is being determined by clubs—who I'd argue aren't in the best position to determine overall social need in society—when such a large proportion of the revenue is coming from people who have a problem that spreads social harm widely through the community. I don't understand why you wouldn't accept taking that broader, higher levy across all gambling activities, which I'd suggest is possible, which you can then spend on social harm, which the public purse is carrying now.

Mr Quinlan: First of all, the public purse does receive upwards of $70 million out of gambling, so it has direct funds. We contribute through the ANU to the chair in gambling studies, and we run the Gambling and Racing Commission as a regulatory body.

I have to say that I'm not a believer in the hypothecation of funds; you start partitioning your revenue. If we've got a social problem with gambling and a problem with gambling in principle, we ought to address that as such and not get it mixed with the level of funds. We ought to apply funds appropriate to whatever problems we have in the community—and not just problems; we actually want a vibrant, active and positive community. I think we should collect funds as appropriate, and we should apply funds as appropriate. Tying a bit of this to something over there would distort a priority setting process.

MS TUCKER: When you do an analysis of the impact this industry at its current size has on the local economy, do you do an analysis of what people are doing with their disposable income?

Mr Quinlan: Can I have the question again?

MS TUCKER: The amount of money that's spent put into poker machines could potentially be spent on something else in our community. Has there been any analysis of the impact of that? We have a cap on poker machines at the moment, but the industry had been significantly growing over the years until that cap was put on. Has an analysis been done of what that's meant for the local economy? It's sometimes called a "cannibalisation" of the local economy.

Mr Quinlan: Tu Pham tells me by note that the Productivity Commission report canvasses that issue. Would you like to expand on that?

MS TUCKER: I'm aware of the Productivity Commission. It's fine.

Mrs Pham: Hundreds of reports have been done to analyse that impact.

MS TUCKER: Yes, I was just wondering about here in the ACT. I know what the Productivity Commission said; I just wondered if any local work has been done.

Mr Quinlan: What we get in gambling in total is—

Mrs Pham: $43 million.

Mr Quinlan: From poker machines?

Mrs Pham: No, only $26 million from poker machines.

Mr Quinlan: I thought it was more than that.

MS TUCKER: That's the sum for what?

Mr Quinlan: We get $27 million from poker machines and $43 million altogether from gambling.

MS TUCKER: Is that how much is put through poker machines?

MS MacDONALD: No, it's 27 million.

MS TUCKER: No.

Mr Quinlan: No, that's not how much is put through.

MS TUCKER: That's my question. I'm talking about how much is put through poker machines. That was my last point—not how much you receive. How many people are putting how much money into poker machines? How much money is going through poker machines that could be going through something else in our society? That's the impact on the local economy issue.

Mr Quinlan: I'm not sure that we can actually even measure that, but we'll have a crack at it. Some people put through $10, win $8 out of that, put that through—that's $18—and then put another $6 through—that's $24. How much do they put in? $10 or $24?

MS TUCKER: I don't know; you can't measure that. That's interesting.

Mr Quinlan: We don't know whether the second $8 was the same person as the first person or the next player.

THE CHAIR: You can actually measure the turnover. Take the question on notice and give us another, unless Mrs Pham has got it there.

Mrs Pham: I think the information is collected through the Gambling and Racing Commission. When you have gross revenue from gaming machines and you know that the policy allows them to pay back up to 85 per cent to players, then you can get the total expenditure. Also, the information we collected from the Grants Commission indicates that the ACT spends $677 per capita. You can multiply that by the population and get the total expenditure.

MS TUCKER: Can I ask a quick one on another issue altogether?

MS MacDONALD: You said that was your last question, Ms Tucker.

THE CHAIR: As long as it's really quick.

MS TUCKER: It's on motor vehicle registration. Have you seen the submissions that come to this inquiry? Are you aware of the submissions?

Mrs Pham: No.

MS TUCKER: What's your comment on the proposal that we should be taxing vehicle use rather than putting a tax on registering or purchasing a vehicle? There is a certain tax on use, obviously, for your fuel. But it often comes up in this debate that, in terms of having an impact on society through environment protection with the influence of an economic instrument such as tax, it would be better, if you want to change behaviour, to tax the use of the vehicle rather than the initial purchase or registration.

Mr Quinlan: Firstly, that to me gives rise to a whole lot of debates about young families and having to cart kids around and inequities occurring in other ways. Secondly, if the level of excise charged on petrol isn't a tax on use, then I don't know what is.

MS TUCKER: I acknowledge that. It's about if and when you're looking at the ACT.

Mr Quinlan: Anybody that drives a motor vehicle is taxed on use because petrol is so heavily taxed. It happens now.

MS TUCKER: I understand that, but I'm talking about the balance. You said that you think there are equity issues. Is that your response to that?

Mr Quinlan: Are we going to have an odometer return every year, or something?

THE CHAIR: There are smart transport systems that watch and record every time your plate goes past a certain point.

Mr Quinlan: Right, toll roads and the whole bit.

THE CHAIR: Exactly. Perhaps we might leave this part.

Mr Quinlan: There are a lot of difficulties anyway, I would have thought.

THE CHAIR: We will leave the inquiry into revenue at this stage, break for 10 minutes for a pit stop and then ask committee members if they've got any questions. I've got a number of questions that I would have asked but, given the closeness to the budget, it would seem unfortunate for us and I assume you'll just take them on notice anyway. I might write them up properly and ask that you might respond to the committee with general answers and, indeed, in regard to what you're doing in the budget next week. We'll break for 10 minutes and resume on another reference.

The committee adjourned at 3.17 pm.