

GOODS AND SERVICES TAX, IMPACT ON STATE FINANCES AND ECONOMY

Motion

Resumed from 19 September on the following motion moved by Hon Ken Travers -

That the House notes the impact of the goods and services tax on the State's finances and economy.

HON DERRICK TOMLINSON (East Metropolitan) [11.08 am]: When my address was interrupted by the effluxion of time yesterday, I was making the point that section 96 grants enable the Commonwealth to intrude into state government legislative responsibilities, even though the Commonwealth under the Constitution may be denied any legislative power and therefore any executive power in those matters. Until 1963, the Commonwealth - whether it was a Labor Government or a Liberal Government - respected the separation of powers. In the period 1901 to 1963, there were payments to the States for specific purposes, the most important of which was for roads. A different perspective of commonwealth-state relations through section 96 payments commenced in 1963. That was initiated by the Menzies Government, through its payments for universities and institutes of technology and for science laboratories, which escalated into payments for school libraries, education in both government and non-government schools and so on. By the time we got to 1972, and Whitlam's new federalism, the opportunity for the explosion of section 96 payments to the States was already established. The Whitlam Government came in with a philosophy of new federalism, which was enshrined in decisions of the ALP conference of 1970-71. That philosophy of new federalism required, so the Labor Party thought, changing the Constitution to enable the Commonwealth to legislate in areas which were, by constitution, not areas in which the Commonwealth could act; that is, education, health, urban development and social welfare. The Whitlam Government found out very quickly that it did not need to change the Constitution to establish priorities for the whole nation. It could do it by the use of section 96 payments; hence, we had an escalation of section 96 payments for education, health, urban development, sewage and all manner of things which were directly state responsibilities. That meant two things: first, it increased the revenue capacity of the States to meet the needs of schools, hospitals and so on - I think that was one of the positive benefits of that change; and, secondly, the States' priorities in their legislative, administrative and executive jurisdictions were established by the Commonwealth. There was a centralisation of political power and policy through the exercise of the grants power.

Yesterday I drew attention to page 157 of budget paper No 3. I now draw attention to page 158, because it contains a graph that matches the same two decades in the graph on page 157. It demonstrates the effect of the specific purpose payments to the States as a proportion of total payments to the States, and it shows an increase from 30 per cent to 45 per cent. At the same time as we are seeing a steady state of general revenue payments to the States, an increase in commonwealth outlays for its own purposes and a dramatic decline in revenue payments to Western Australia through fiscal equalisation, we are seeing escalation of section 96 payments to the States. They are tied grants - not general revenue or block grants; they specify the purposes for which those payments should be applied. In other words, in spite of the fact that the Commonwealth has no power in respect of education - except the section 51(xxiiiA) benefit to students, which has been broadly interpreted as scholarships - the Commonwealth was providing 20 per cent of the funds for government schools and up to 80 per cent of the funds for non-government schools. I could go in to health and all of those other areas.

Progressively from 1963 until 2000, we have seen a centralisation of decision making through the fiscal and financial powers of the Commonwealth. It controls the major revenues. It controls personal income tax, excise and tariffs. It controls the redistribution of those funds through commonwealth-state financial agreements and through section 96 payments. That is the explanation that Hon Ljiljana Ravlich should have taken into account in the argument that she tried to mount yesterday that the GST is impacting unfairly upon Western Australia. All the matters that I have spoken about have no or very little impact on the GST and no or very little impact on how it impacts on Western Australia. They are quite separate, historical issues.

Let us see what the GST was intended to do to the financial capacity of the States. As you know, Mr President, the GST revenues are fully allocated to the States on an adjusted per capita basis according to economic variables. Basically, it is an equal payment according to the number of people in each State. Because it was anticipated that the full impact of the GST would not be visited upon the States until five years after its implementation, the agreement between the Commonwealth and all of the States - regardless of the political persuasion of their Governments - was that during the application of the GST, the Commonwealth would guarantee that no State would receive less revenue than that which it would have received under the previous revenue distribution formula. Hence, we see in this year's budget - as we saw in last year's budget and as I anticipate we will see in next year's budget - that the Commonwealth will pay additional general purpose grants to bring the commonwealth payments, GST revenue and the additional general purpose grants up to the level that each of the States would have anticipated under the old formula. There is no loss of income to the States during that period of the GST adjustment.

Hon Ljiljanna Ravlich: How come we have a \$65 million shortfall? How come the federal Government collected much more revenue than anticipated and did not return the excess revenue collected to the States?

Hon DERRICK TOMLINSON: Let us explore further what happened in this time. As we know, the original intention of the GST is that it would be a blanket tax. As we know, the Labor Party and the Australian Democrats agreed that there would be no tax on food. That changed the whole projections of GST income.

Hon Louise Pratt: It was not the Labor Party. There was no GST on anything. We did not agree to no GST on food.

Hon Ken Travers: You did the deal with the Democrats.

Hon DERRICK TOMLINSON: Thank you, I stand corrected.

Hon Ljiljanna Ravlich: Can we have that again?

Hon DERRICK TOMLINSON: I stand corrected. Is that in the *Hansard* record? It is. I stand corrected.

Hon Ljiljanna Ravlich: It is a historical moment in this Chamber.

Hon DERRICK TOMLINSON: I am a historical person - not a hysterical person. That impact must be absorbed.

The other aspect of the agreement that the GST would be redistributed wholly among the States was that the States would forgo some of their independent taxing revenues; hence such things as stamp duty, financial institutions duty and payroll tax would be abolished. I think 16 state taxes were to be abolished. However, due to the diminution of the GST revenue as a result of the decision to remove the tax from fresh foodstuffs, the States' revenue yield from the GST diminished proportionately; therefore, their capacity to surrender their independent taxes diminished proportionately. However, as the revenues progress towards their estimated level of 2005, those taxes are being progressively removed. The removal of stamp duty in this year's budget is not a benevolent decision of the State Government, nor is that the case regarding the adjustment in gambling tax in this year's budget. They are decisions that are visited upon all the States, for which similar adjustments have been made in independent state revenues, due to the continuing commonwealth-state agreement.

We must ask ourselves, what is the impact of the GST. I made the point at the beginning of my remarks that it is too early to make any assessment of the impact of the GST in the macro-economic levels that Hon Ljiljanna Ravlich tried to introduce. She can talk about the emotional impacts. People become disoriented when change is introduced, whether it be a change in taxation or in any social function, because it takes people out of their comfort zone. Social disorientation arises from that kind of change. Complicated business procedures had to be adapted to cope with those changes. The disorientation caused by the tax reform was compounded by the methods propounded by bureaucrats who designed the reporting procedures. All those impacts are real and without doubt they will affect the way people choose to vote at the next election. We cannot deny that one bit.

It was also expected that, in the first year, the GST would create inflationary pressures. The cost to businesses of the adjustments they had to make in their reporting and financial procedures was expected to have an inflationary impact. Government recognised that and tried to compensate for some of those costs with benefits payable to individuals. I do not pretend that the Commonwealth fully met the cost to individuals, and that has compounded the general social disorientation people have felt. However, in terms of the macro-economic issues that Hon Ljiljanna Ravlich tried to raise yesterday, it is far too early to comment. The assumption about the benefits of the GST and its redistribution among the States, without the Commonwealth retaining any for its own purposes, is that it will provide the States with a growth tax. That assumption must be tested, not in 2001 when the GST is in its second year of operation, but in 2005 when the full expectation of GST revenues is realised. After 2005, if GST revenues increase, as is estimated, the State's independent financial capacity through the GST will increase. Its capacity to pay for its functions will be satisfied. That is the expectation and the impact that we must measure in 2005 and thereafter. It is far too early to even consider at this stage whether all of the projections in the first year of the GST will prove to be reliable. The early projections at the beginning of the first year was that yield would exceed expectations. At the end of the financial year, yield did not meet those expectations. We have on our hands a fairly unreliable prediction.

I heard Hon Dee Margetts interject earlier about fiscal equalisation. Here is the real test of the GST. A growth tax is desired by the States to enable them to meet the demands of their communities for services constitutionally provided by the States without recourse to additional commonwealth revenues. They are now provided through fiscal equalisation, which I think, through the Commonwealth Grants Commission, will have to continue anyway, given the inequality of economic activity among the States. If Western Australia continues to have a buoyant economy - there is no reason it should not, because we have at least 20 years of minerals to exploit; but that is something we must prepare for in the future - we can expect a continuing adverse share of fiscal equalisation payments.

However, will there be any diminution of commonwealth intrusion into state responsibilities through section 96 payments? I predict that the real change will not occur as a consequence of the GST. If any real change is to occur in commonwealth-state financial relations and in the financial capacity of the States to pay for their functions from their own revenues, it will occur if there is a shift away from tied grants under section 96 of the federal Constitution to general purpose grants. Tied grants impose commonwealth priorities on state spending. General purpose grants allow the States to determine their own priorities.

Hon Dee Margetts interjected.

Hon DERRICK TOMLINSON: I am sorry, I was waxing eloquent and did not hear Hon Dee Margetts.

Hon Dee Margetts: The GST has not solved that problem.

Hon DERRICK TOMLINSON: My prediction supports that. Until the Commonwealth unties the section 96 grants, the independent financial capacity of the States will not enable them to determine their priorities according to their own revenues.

When we speak about the impact of the goods and services tax, it is essential that we distinguish between the various kinds of impacts. Emotional and social impacts are one level. They are as transitory as other social and emotional impacts. They will change with time and with circumstance. I am so bold as to predict that in 12 months, provided there is no tampering with the GST - certainly some finetuning and adjustment, but no major tampering - the GST will not be a political issue; it will be depoliticised. For this reason, I sincerely hope that the Howard Government continues in office after November 2001, or whenever the election may be. If by some mischance a Labor Government is elected, I sincerely hope that it realises it would be folly to roll back the GST in any major way. For those parties that might determine the future of the Government by distribution of preferences, I sincerely hope that they do not fritter away their preferences on a party that is threatening to undo the economic planning of this nation.

The third level is the micro-economic level; that is, our capacity to spend our income according to our wishes. It has been portrayed that the GST puts an unfair burden on the low-income earner. Certainly, some aspects of the GST have imposed burdens upon low-income earners - things such as car insurance and household rates. That is undeniable. However, that is not peculiar to low-income earners because the GST is applied uniformly. According to a person's capacity to spend, so a person pays proportionately more GST. People pay the same rate of GST. The low-income earner spends 10 per cent on GST, but so too does the high-income earner. Therefore, let us not distort this argument by saying that the GST is a burden borne only by the low-income earners. The GST is intended to be a burden borne by all spenders, regardless of income or capacity to pay. We would be well advised to bring reason into the debate, rather than discuss the emotion that has characterised it so far.

HON LOUISE PRATT (East Metropolitan) [11.33 am]: In more than 12 months since the implementation of the goods and services tax, more than 12 promises have been broken by the federal Government. Prime Minister John Howard promised that everyone would be a winner with the GST. In fact, he said on radio that he did not believe anybody would be worse off, except tax cheats. *Hansard* shows that he also said that Australian families would be better off. In answer to a question on notice, Treasurer Peter Costello also said that all Australians would be better off under the new tax system. The reality is, however, that many people do not think they are winners.

Polls have consistently shown that very few Australians feel they are better off under the GST. ACNielsen reported in February that only 10 per cent of Australians believed they were better off. Newspoll reported on 31 May this year that only 10 per cent thought they were better off. I am sure that that 10 per cent would have been our high-income earners. Quadrant reported in June this year that only nine per cent believed they were better off.

The GST has had a big impact on the working poor and on charities. It is disproportionately borne by people living in rural and regional areas, who often live on the same income as those in the city, but their costs of living are higher, which means they pay a proportionately greater level of GST than the rest of the population. There has been a social cost in the loss of sports and recreation activities, and a loss of volunteers in the community sector, which is also not better off. Why are they not better off? It is because the GST is a regressive tax.

It has also been revealed that poor people are missing out on the GST help that they were promised. Thousands of poor families are missing out on the compensation the federal Government is offering to offset the cost of the GST. The commonwealth research arm of the Commonwealth Bank of Australia said that, according to its research, the Government must revisit the issue of compensation for poorer Australians. The Government will have to make adjustments and bring in compensation measures to assist low income earners in particular to cope with the negative effects of the GST. This is after we were promised that no-one would be worse off under the

GST. The Government will have to revisit its assumptions about the types of compensation that should be made available to low income earners and, for that matter, small business. The working poor did not get big tax cuts. They get very little in social security payments - so there were no adjustments in that area either - yet their costs have risen under the GST, not only for the goods and services that they consume, but also in taxes on taxes, which are an extra burden on them.

Charities have lost under the GST. As Hon Sue Ellery revealed in her speech, charities are losing a great deal of money under the GST, despite being promised that they would be tax exempt. Charities do a large amount of work helping low income earners when they reach a point of crisis in paying their bills so that they can get out of a tight spot. When a charity pays a bill on behalf of someone who is in crisis, it must pay the GST, and it cannot claim it back. It has been revealed that Western Australian charities have lost at least \$400 000 this year to the goods and services tax. Shawn Boyle from the Western Australian Council of Social Service estimated that about \$4 million of the total \$5 million emergency relief budget of Western Australian charities and welfare groups went towards unpaid utility bills. Proportionately, that means those charities are paying about \$400 000 in GST - a tax from which we were told charities would be exempt. Anglicare said that it is losing about \$350 000 to the GST from its emergency relief program. Two leading charities, the St Vincent de Paul Society and Anglicare, have already paid about \$600 000 in GST, despite the promise that they would be exempt from it.

Some of the other impacts include sports helpers quitting their participation in community groups. Many of those people come from small business. According to state sporting federations, GST compliance is eating into people's recreational time; therefore, those groups have lost volunteers from their organisations. There have also been reports of families not being able to afford to send their children to participate in sport and recreation activities because of rising costs attributable to the GST.

I will now go on to the second broken promise: no small business will go under because of the GST. Peter Costello said that he did not think anyone would go to the wall as a result of the GST and that businesses would not flounder.

Hon Frank Hough: He made an honest mistake.

Hon LOUISE PRATT: He said that on radio in May last year. The reality is that many small businesses have hit the wall. Figures released in June this year indicated a 78 per cent increase in bankruptcies compared with June last year.

Hon Frank Hough: Another honest mistake.

Hon LOUISE PRATT: It was a dishonest mistake. The National Tax and Accountants Association Ltd has said that the incidence of bankruptcies has increased by 30 per cent over the past year. The association has asked for compensation for businesses that have gone bankrupt because of the burdens imposed by the GST. Association president Mr Ray Regan said that evidence demonstrated the GST had destroyed many businesses and put thousands of employees out of work. He also said that the Government had been warned before the introduction of the GST that businesses would fail because of their inability to expand sales to cover the cost of complying with the new tax. Apparently, the difficulties have been compounded by the contraction in the growth of the economy, which has meant that sales are not growing for many businesses. Insolvency experts say that the bankruptcy explosion is the result of businesses delaying payments because of their GST liabilities. It has been a complicated affair for small business.

I will draw on an example from my electorate. Bruce Dodds, who owns the Cannington General Store, said that his business had suffered a turnover drop of 25 to 30 per cent and that the GST had caused a dramatic change of lifestyle for him and his family. He now works up to 17 hours a day, six days a week. He said that he hardly ever sees his family. It takes him 30 minutes to get to his store and he works from 5.00 am until 10.00 pm. He must then do the return 30-minute trip home. That is what the GST means for many people working in small business in this State.

Patterson Market Research conducted a survey, and 58 per cent of respondents said that their profits had been slashed. They have incurred high compliance costs, a cut in cash flow and reduced consumer demand. They are unable to recover their costs without increasing their prices. It is estimated that each business spent \$5 587 preparing for the introduction of the GST. In addition, 75 per cent of the respondents said that the economy is worse off - only six per cent said it was better off.

Local taxi drivers are also complaining about the GST. The Taxi Council of Western Australia chief executive, Joanna Ammon, said that several drivers had left the industry blaming the GST. The GST is very unfair and it has hit the industry hard. Unlike other business proprietors, taxi owners with a turnover of less than \$50 000 are not exempt from the GST. That is an unfair impost on that industry.

Australia's small business community has rated the GST a failure.

Hon Frank Hough: They are right.

Hon LOUISE PRATT: They certainly are. Two-thirds of small business proprietors say that they are worse off after 12 months under the new arrangements. Another survey conducted by the *Sunday Times* found that only 11 per cent of small business proprietors believe that the GST has helped them. The survey revealed that 62 per cent said that it had hurt their business, and that the past 12 months were the most difficult they had experienced. It further revealed that 76 per cent said conditions were flat or worse, and 90 per cent said that the Government had done nothing to help and that the business activity statement changes had not made anything easier. Combined Association of Small Business president Geoffrey Hughes said that these survey results were disastrous for the federal Government. The association also said that small business people are the Liberal Party's natural constituency, but they feel they have been done in the eye. The federal Government's performance in this area has been nothing short of suicidal. Greg Weryk, the owner of Seaview Aquariums, said that the GST had slashed his turnover by up to 30 per cent and that it had imposed a very personal toll on him and his family. It has been very stressful for them. He bought his business three years ago and during the first year he did not make any money. During the second year he was starting to get somewhere, but the third year saw the introduction of the GST and everything went down the toilet. He closes his business at the end of the day and then spends another two or three hours doing GST paperwork. It is a very onerous impost on the families of Western Australia, particularly those involved in small business.

The third broken promise was that small business red tape would be slashed by the GST. The coalition Government said it would slash the burden of paperwork imposed by regulations. The aim was a 50 per cent reduction in paperwork during the federal Government's first term in office. John Howard said that in a press release dated 30 January 1996.

Hon Frank Hough: Honest John made another mistake.

Hon LOUISE PRATT: John Howard said in March 1997 that the volume of tax legislation had become a tidal wave that threatened to overwhelm small businesses. When asked by a journalist whether the number of pages in the Tax Act would be reduced by the introduction of the GST, Howard replied, "Yes, it will." The reality is that we are drowning in red tape. The stack of GST legislation and explanatory material is thicker than three telephone books and weighs 7.1 kilograms. Already the federal Government has made 1 800 amendments to the GST legislation, and further amendments are in the pipeline. Hon Derrick Tomlinson said that we should leave it alone.

Hon Derrick Tomlinson: I said there was a need for finetuning.

Hon Frank Hough: It has been amended 1 800 times.

Hon Derrick Tomlinson: That is finetuning.

Hon LOUISE PRATT: The Tax Act now contains 8 500 pages compared with the 3 000 it contained when John Howard was elected on a promise to cut red tape. He said that the number of pages in the Act would be reduced, but it has more than doubled. It is hysterical.

The August Yellow Pages business index indicates that of the seven most important reasons cited for criticising the federal Government's policies, six relate to the GST and the business activity statement. That demonstrates the significant impact it is having on small business.

Small business retailers have advocated the provision of compensation. Accountants Hall Chadwick found that small business proprietors are spending 18.6 hours a week doing GST-related paperwork. The National Association of Retail Grocers is contemplating seeking compensation. The head of the Council of Small Business Organisations of Australia, Rob Bastian, has long advocated that 10 per cent of the GST levy should be provided as compensation for small business retailers.

Hon Frank Hough: He is right.

Hon LOUISE PRATT: Alan McKenzie, the spokesman for NARGA, said that it is costing retailers 28c for every dollar of tax collected to comply with the GST. For the larger chain stores, that cost is a couple of cents. If a business collects \$4 000 in GST each month, the proprietor should retain \$400 to recoup costs. That is a lot of money to small business proprietors who have families to support.

Another survey demonstrates that small retailers are bearing the brunt of the goods and services tax pain. It states -

A nationwide survey has revealed that small retailers bear a disproportionate compliance burden under the GST, prompting retail grocers to reject weekend comments by the Prime Minister, Mr John Howard, that small business was getting used to the new tax.

I do not think small business is getting used to this new tax. The biggest single factor is that they have to check every invoice, according to Alan McKenzie, spokesperson for the National Association of Retail Grocers of Australia. He said that it does not matter what the Government does on BAS, that cost will not change.

This is another very complicated issue that small businesses have to deal with. Accountants are warning small business owners contemplating selling their businesses that they should be careful about whether the sale of their small businesses may be subject to a GST. The definition of a small business to be exempt from the GST when it is sold and passed on to someone else states that it should be a going concern, which could be a difficult definition with which to comply. For example, if a fishing operator sold a business to another fishing operator without transferring the fishing licence, because the buyer already had a licence, the GST could apply to that sale because it may not meet the definition of a small business as a going concern. That would mean that the vendor selling the business would need to meet the costs of the GST, whereas the person purchasing the business would claim back the tax input, leaving the person selling the business out of pocket and the person buying it with a windfall.

The fourth broken promise was that the GST would create more jobs. That is what we were promised.

Hon Tom Stephens: More taxation collectors, I suppose. More jobs for accountants and bookkeepers and all those sorts of productive areas.

Hon LOUISE PRATT: The promise was that the combination of higher growth and improved working incentives would deliver more jobs and lower employment. Peter Costello said that on 23 August 1998 when referring to the new tax system. The reality is, however, that there are fewer jobs. Since the introduction of the GST, the rate of job growth has flat-lined and the unemployment rate has risen. The figures I am referring to are national figures. There has been a fall in the number of full-time employed people of 160 400, a rise in the unemployment rate of 0.8 per cent, and a rise in the number of unemployed by 82 600. The growth rate in jobs is down to just 0.1 per cent, after it peaked at 3.7 per cent in July last year. They must have been the accountants that the minister was talking about.

In August this year, we received a report on the State's unemployment figures. Data released by the Australian Bureau of Statistics showed that 800 full-time and 800 part-time jobs were lost in Western Australia in July this year. Western Australia's unemployment rate fell to 7.2 per cent, from a peak of 8.1 per cent in June, which is substantially higher than the 5.9 per cent in July last year. They are the corresponding state figures which show the loss of jobs in Western Australia.

The headline in *The West Australian* of 8 June this year was "WA jobless highest for five years". Much of this is attributable to the impact of the GST, particularly on small business.

The fifth broken promise was that the GST would shut down the black economy.

Hon Frank Hough: It is bigger than ever.

Hon LOUISE PRATT: It is indeed bigger than ever. The promise was that the black economy would disappear. John Howard said that as well as getting money from the surplus, the GST itself produces a dividend out of the black economy. There is \$3 billion out there that cannot be got out of the black economy without a GST.

Hon B.K. Donaldson: What about when people say they will take cash for a job? They have to go and spend it.

Hon LOUISE PRATT: I will get to that. Peter Reith said on *Sunday Sunrise* in June 2000 that we are talking about a lot of the black economy here. Treasury estimates have been an extra \$3.5 billion from the black economy. Then he had the nerve to say, "Personally, I would double that figure; I would say an extra \$7 billion as a result of the black economy." The reality is, however, a bigger black economy. Peter McDonald from Taxpayers Australia was reported in the *Herald Sun* in June this year as saying that the black economy is going ballistic. Michael Dirkis, the Director of the Taxation Institute of Australia, was reported in *The Sydney Morning Herald* of June this year as saying that there has been an explosion in the black economy and businesses have more cash than ever being thrown at them. Tax law professor Rick Krever said that an inevitable and known consequence of adopting a GST is a dramatic increase in the cash economy, perhaps in the order of many billions of dollars.

Obviously there is a big contradiction between what was promised and what is actually happening in our economy. I had my own experience of that this week when I went dress shopping for a rather expensive outfit, and I feel a little bit guilty for buying it, but the lady said she would give me a discount if I paid cash. I thought that she was probably trying to avoid the bank fees, because prior to the GST business proprietors would often say, "If you pay cash we don't have to put it through our EFTPOS and therefore we can avoid credit card and EFTPOS charges." It was only upon leaving the shop that I realised that I had probably assisted this woman to cheat the tax system, because she had offered me about a 10 per cent discount. Shame on me!

In other places where similar taxes have been introduced - Britain, Canada and New Zealand - the tax systems have all added to the black economy. Despite long-established value-added tax systems in these countries, they all report thriving black or underground economies. According to Christopher Bajada, an academic at the University of Technology in Sydney, the underground economy in Australia is extraordinarily resilient; in fact, he also calls it a growth sector.

Small business is suffering because of the difficulty of competing with other businesses which are participating in the black economy. A painter by the name of Dave Wright from Desmond Decor is very angry about being undercut by other operators who are charging GST-free prices. He says that he sometimes finds it hard to get workers who are willing to work at weekends, and he believes that many of these people are perhaps working for themselves and doing jobs for which they are not charging the GST and are perhaps undercutting him. Small Business Association executive director Philip Achurch agrees that there is a good deal of evidence that "cheaper for cash" work is going on.

Hon B.K. Donaldson: Don't you believe that cash jobs have been going on for years, GST or no GST?

Hon LOUISE PRATT: The point is that we were promised that it would decrease. We were promised that the GST would rein in the black economy, and it has not happened.

Hon B.K. Donaldson: Everybody earns a dollar in the black economy. Somewhere along the line they spend that money and the Government picks up the GST.

Hon LOUISE PRATT: John Howard promised it would be reined in by the GST.

Several members interjected.

Hon LOUISE PRATT: Yes, the black economy is with us and always will be with us, but the promise was broken.

The PRESIDENT: Order, members! We are getting into a communal talkfest here. Hon Louise Pratt has the call.

Hon LOUISE PRATT: A UTS survey says that the GST encourages a lot more tax avoidance. It is interesting that when the GST was first introduced, the black cash economy shrunk by about \$1 billion during the first three months. That was attributable to the fact that many participants ceased trading for a little while - at least temporarily - until they understood the tax system. The black cash economy recovered by \$1.75 billion in the December quarter according to a report published by the Australian Tax Research Foundation. New South Wales is the leader in the black economy, although Western Australia is fairly close behind.

I turn to broken promise number six. Peter Costello said, according to *Hansard*, that the first principle is that one does not impose a tax on a tax. What a joke! He also said that, of course, he could confirm GST does not apply to taxes. Obviously our national Treasurer does not understand what a tax is. GST is added to taxes, levies, fees and charges, third party insurance, such things as petrol excise, tobacco excise, alcohol excise, import duties, fire levies in some States, international park entry fees, swimming pool entry fees, sporting field hire and community hall hire. They are all government charges and taxes and incur the GST.

Broken promise number seven particularly hurts me, because I have seen many people in quite a lot of grief over this issue. We were told that everyone over 60 years of age would get a \$1 000 savings bonus. John Howard said on 6PR radio that there would be a \$1 000 bonus for all people over 60 years. He said in a speech that for every person over 60 there would be a savings bonus, a one-off tax-free bonus of \$1 000 related to any investment income that they might have. The reality is that many people over 60 years of age missed out. Some 40 per cent of Australians over the age of 60 years got nothing and 10 per cent of Australians over 60 years got less than \$50. What really hurt me about this episode was that the poorest pensioners with very little supplementary income were most affected. They were sent letters telling them how they would get a bonus. Many fronted up to the office in which I was working for the federal member for Fremantle. A number of them were in tears because they had received letters saying that they were entitled to \$1 or \$3. Some were shaking with anger. Many said that they did not want the money because they were so insulted. It was an incredible insult to them, and the administration of that so-called savings bonus would have cost much more than the so-called bonus.

To make things worse, promise number eight was that pensioners would get a four per cent pension rise as goods and services tax compensation. Social security, veterans pensions and allowances would be increased by four per cent, according to Peter Costello. John Howard said that pensioners would be better off under the GST because they would receive a four per cent up-front increase, a savings bonus and all sorts of additional benefits. The reality was that the Government clawed back two per cent of that four per cent increase. I cannot tell members how many pensioners came into the member for Fremantle's office complaining about that. Pensioner groups say that the compensation has not been enough. They have also suggested that Western Australia should

advocate a review of the GST compensation. Perhaps we should advocate the same thing. The Democrats when they struck a deal over the GST said that compensation should be reviewed in 2003. I believe that review should be brought forward. Not only pensioners are feeling the bite of the GST. People aged over 60 years who have retired since 1 July 2000 have received no compensation for the devaluation of their savings; nor have recent retirees, whose incomes have also been devalued by the GST.

Promise number nine was that health, education and for that matter rent would be GST-free. The Government's GST advertisement said that health, education, childcare services and nursing homes would be GST free. The reality is that the GST has hit health and education. Education costs such as school uniforms, shoes, public transport, books and schoolbags all incur the GST. We were told that the higher education contribution scheme would be GST-free. However, the GST has had a significant impact on people's HECS debt. The consumer price index was 5.3 per cent; and people's HECS debts rise according to the CPI. The GST component of the CPI was 2.05 per cent. Therefore, people's HECS debts rose as a result of the GST even though students and ex-students were told that their HECS debts would not increase as a result of the GST. As an ex-student, my HECS debt has increased. The GST effect on the CPI and its consequences of roughly \$1 million on the HECS liability means that most people's HECS debts as a result of the GST have gone up by a couple of hundred dollars. Mine certainly did. Fortunately I have nearly finished paying mine off. My flatmate's, however, went up by nearly \$500 because she has a substantial HECS debt from having completed a degree and honours and is now undertaking further postgraduate studies, yet she is not guaranteed a high income when she leaves university.

Hon N.F. Moore: Who brought in the HECS in the first place?

Hon Tom Stephens: Who brought in the GST?

Hon N.F. Moore: Dawkins, the Labor Minister for Education brought in HECS.

The PRESIDENT: Order! When the Leader of the Opposition and the minister are quite finished, the member who has the call may resume her speech.

Hon LOUISE PRATT: Health items such as skin creams, denture repairs, sanitary products and vitamins all face the GST. My rent went up when the GST was introduced even though I was promised that it would not. Although rent itself does not incur the GST, the costs to landlords of their real estate agents' service fees incurs GST, and those costs inevitably get handed on to the rent payer.

Promise number 10 was that the GST would be good for the Australian dollar. We were promised that the Australian dollar would be worth more. Peter Costello said that lower costs for exporters would be reflected in a moderately stronger exchange rate over time. However, we all know that the Australian dollar has dived.

Debate adjourned, pursuant to standing orders.