



David Thodey
Chair, Federal Financial Relations Review
Via email: FFRReview@treasury.nsw.gov.au

21 November 2019

Dear Mr Thodey,

The St Vincent de Paul Society NSW appreciates this opportunity to comment on the *NSW Review of Federal Financial Relations*. Our response to the Discussion Paper is founded on our desire for a more compassionate and equitable society where everyone can live with dignity.

The experiences of our members, our volunteers and our staff, who every day provide assistance to some of the most disadvantaged and marginalised members of the community, speak to a growing divide in our communities between those who have benefitted from strong economic progress, and those who have been left behind.

The tax system plays a critical role in shaping our communities, and in ensuring this divide does not continue to grow. It can facilitate a more equitable distribution of wealth, as well as raising the revenue needed to support the community's needs - in particular, the needs of people experiencing poverty and other forms of disadvantage. Our interest in this review process is in ensuring our tax system does not unfairly impact people on low incomes, but rather works to reduce inequality. We are also concerned with making sure sufficient revenue is raised to adequately support all people in our community, to uphold their human dignity, and to enable their full inclusion in society.

This submission focuses on how two tax streams within the NSW Government's remit can be amended to work better for people on low incomes. We also share our perspective on Commonwealth Government revenue sources.

Issue 2 – How can the tax system work better for citizens and business and improve the economy for future generations?

Housing

The St Vincent de Paul Society NSW is deeply concerned about the number of people in NSW who do not have a place to call home. According to the 2016 census, almost 38,000 people in NSW are classified as homeless, a 37% increase compared with 2011.¹ Across the State, over 137,000 households in the bottom 20% of income earners are experiencing housing stress.² Anglicare's research on the rental market shows that less than one per cent of rental properties are affordable for almost all families and individuals on low incomes in Sydney.³

This housing crisis is a result of many and varied factors, including current tax arrangements. While the Commonwealth Government controls many of the tax settings that affect the housing market (as noted in our response, below, to Issue 3), the NSW Government's system of taxes also plays a significant role. Transitioning from stamp duty towards a broad-based land tax could have a positive impact on housing affordability. Both the Henry

¹ ABS (2016) *Census of Population and Housing*.

² City Futures Research Centre (2019) *Estimating need and costs of social and affordable housing delivery*.

³ Anglicare (2019) *Snapshot: Anglicare Sydney – Greater Sydney and the Illawarra*.

Tax Review⁴ and the Productivity Commission⁵ have made recommendations to this effect, as well as many leading economists internationally.

In NSW, most owner-occupied properties are currently exempt from land tax. A broader-based land tax system would lead to improved housing affordability, particularly in the rental market, and in high value areas.⁶ At the same time, a broader-based land tax offers the potential to phase out stamp duties, lowering the upfront costs of home ownership and making it easier for people to enter the market or to move as their housing needs change over time - for example, to downsize, or to move to take up new employment opportunities.

Land taxes also present an opportunity to capture a share of increased land values arising from government and community investment, and to return this value to community use. This value-capture mechanism could help resolve large and growing spatial inequalities in NSW – particularly if revenues were invested in social infrastructure such as social housing.

Added benefits of a broad-based land tax include the potential to: –

- Reduce the Budget's exposure to the ups and downs of the property market.
- Reduce land speculation (especially if a differential land tax regime is applied to vacant land).
- Speed up development in areas where land is more expensive.⁷

In transitioning to a new regime, we acknowledge that care must be taken not to disadvantage particular cohorts such as asset rich, income-poor landowners.

Recommendation: The NSW Treasury's roadmap to more sustainable funding arrangements should include a plan to transition to a broader-based land tax, ensuring existing home-owners on low incomes are not unreasonably impacted.

Gambling taxes

The NSW Treasury's Discussion Paper notes the Productivity Commission's recommendation that governments should eliminate tax concessions for certain types of gambling providers and instead provide support for community activities via transparent and direct government funding.⁸ We support this recommendation.

The St Vincent de Paul Society everyday witnesses the harm that gambling causes in the community. Gambling contributes to relationship difficulties, physical and mental health problems, job losses, financial issues such as bankruptcy and poverty, cultural problems, and crime.⁹

Gambling taxes in NSW do not currently reflect the level of harm caused by this industry. In particular, the tax concessions given to clubs on the revenue generated by poker machines result in one of the lowest levels of taxes levied on the industry by any Australian government.¹⁰ This approach fails to adequately moderate the industry.

⁴ Australia's Future Tax System Review Panel (December 2009) *Australia's future tax system: Report to the Treasurer* (Henry Review).

⁵ Productivity Commission 2017, *Shifting the Dial: 5 year productivity review*. Available: <https://www.pc.gov.au/inquiries/completed/productivity-review/report>.

⁶ Australian Housing and Urban Research Institute (AHURI) 2017, 'Scrap stamp duty, replace with a land tax – what are the impacts?'. Available: <https://www.ahuri.edu.au/policy/ahuri-briefs/understanding-stamp-duty-and-land-tax>

⁷ AHURI 2012, *The spatial and distributional impacts of the Henry Review recommendations on stamp duty and land tax*.

⁸ NSW Treasury (2019) *NSW Review of Federal Financial Relations: Working together for a better future*.

⁹ Victorian Responsible Gambling Foundation (2016) *Assessing gambling-related harm in Victoria: a public health perspective*.

¹⁰ Queensland Government Statistician's Office, Queensland Treasury, *Australian gambling statistics*, 34th edition.

NSW has one of the highest densities of poker machines in the world,¹¹ and the highest annual losses per capita of any Australian jurisdiction.¹² Compared to other gambling activities, poker machines have the highest proportion of participants with gambling-related problems, with 46% of regular poker players experiencing one or more gambling-related problems during any given year.¹³

The tax concessions on poker machines in clubs also represent lost revenue that could be better used directly supporting underfunded social and community services and building much needed social infrastructure such as social housing. According to the 2019-2020 Budget Papers, the NSW Government will forfeit \$907 million of revenue as a result of the lower rate of tax on poker machines installed in clubs compared to those installed in hotels.¹⁴ To put this in perspective, in the same financial year, \$996.1 million of recurrent expenses were allocated against the State outcome to 'Provide a safe and affordable place to live'.

Recommendation: The NSW Government should ensure taxes levied on gambling machines properly reflect the harms caused by gambling-related problems. Tax concessions should be replaced by transparent and direct government funding.

Issue 3 – Commonwealth tax revenue source are eroding which will make it more challenging to fund services across the country

We share the NSW Treasury's stated desire that future generations have access to quality government services. As the Discussion Paper notes, a number of Commonwealth tax revenue sources are eroding, making it more challenging to fund services across the country. However, while growth in GST revenues is weakening, the NSW Government should not advocate to compensate by extending the base of the GST to include essential items such as fresh food.

Households on low incomes typically spend a much larger proportion of their weekly budget on food than higher income households. According to the 2015-16 Household Expenditure Survey, those households in the lowest income quintile spend approximately 18.7% of their weekly budget on food and non-alcoholic beverages, compared to 14.3% for higher income households.¹⁵ Applying the GST to fresh food would therefore have a disproportionate impact on lower-income households.

Already, many households on low incomes cannot afford everyday essentials such as food. Of the more than 61,000 people supported by members of the St Vincent de Paul Society NSW in the 2018-19 financial year, 57% reached out for assistance because they had run out of food and could not afford to buy more. We responded by providing more than \$7.4 million worth of food relief in the form of vouchers and parcels.

Applying the GST to fresh food would increase the number of people in our community who cannot afford to feed themselves and their families. At an individual and family level, the experience of food insecurity can seriously impact physical and mental health, social and emotional wellbeing, and education and employment outcomes. At a community level it reflects poorly on our society's commitment to upholding the common good and our respect for the human dignity of each and every person.

¹¹ Brown, B., & Minshull, L (2017) Pokies pub test: Australia has most of the world's pub and club poker machines. Available at <https://www.tai.org.au/sites/default/files/Pokies%20pub%20test%20FINAL.pdf>

¹² Queensland Government Statistician's Office, Queensland Treasury, *Australian gambling statistics*, 34th edition.

¹³ Armstrong, A., & Carroll, M. (2018). *Poker activity in Australia*. Melbourne: Australian Gambling Research Centre, Australian Institute of Family Studies.

¹⁴ NSW Treasury (2019) 2019-20 Budget Papers, Appendices A5. *Tax Expenditure and Concessional Charges Statement*.

¹⁵ ABS (2017) *Household Expenditure Survey 2015-16*. Cat. No. 6530.0.

In response to early proposals to apply the GST to essentials such as food, the Australian Catholic Social Welfare Commission wrote:

A just system of taxation should not seek to impede an individual's access to the common goods required to support themselves and their families. A just system of taxation should be based on that characteristic principle of Catholic social teaching which states that: 'the goods of this world are originally meant for all'. Equitable access to these goods by all individuals in the community is imperative for their human dignity.

Any system of regressive taxation which impedes access to these goods by not taking into account the capacity of individuals and families to pay tax, is not a just system. Regressive tax regimes, which place a heavier tax burden on lower income than on higher income earners, are an infringement on people's ability to support themselves and their families and impede human dignity.

It is society's responsibility to uphold human dignity for the common good of Australia. In meeting this responsibility, each and every one of us, as individuals, has a duty to uphold our own human dignity as well as the human dignity of every other individual. A taxation on essential food not only limits our ability to uphold the human dignity of other individuals, it restricts our ability to play an active role in upholding the common good of our Australian community.¹⁶

These arguments still hold true today.

Rather than looking to extend the GST to essential services to compensate for an eroding revenue base, we recommend that Treasury looks first to progressive tax reforms. At the federal level, this includes removing tax concessions such as negative gearing and capital gains tax discounts that not only directly benefit people with greater levels of wealth, but that also distort the housing market, contributing to the housing crisis and to growing inequality.

Recommendation: The NSW Government should advocate to the Commonwealth to ensure the GST is not expanded to essentials such as fresh food, but rather prioritise progressive tax reforms.

If you have any questions about this submission, please do not hesitate to contact Rhiannon Cook, Manager, Policy and Advocacy.

Yours sincerely,



Jack de Groot

CEO

¹⁶ Australian Catholic Social Welfare Commission (1992) 'Taxation and Food'. Oct 1992, Vol 1 ,No. 2.