

26 June 2008

COMMITTEES

Electoral Matters Committee Report

Mr BRADBURY (Lindsay) (10.15 a.m.) — I rise to add my comments to the discussion about the report by the Joint Standing Committee on Electoral Matters entitled Advisory report on schedule 1 of the Tax Laws Amendment (2008 Measures No. 1) Bill 2008, which has been presented. Indeed, I spoke on the Tax Laws Amendment (2008 Measures No. 1) Bill 2008 earlier in the life of the parliament and made a number of comments on that occasion in relation to schedule 1. Schedule 1 is the schedule that was the subject of this particular review.

I begin by making a couple of obvious points that need to be borne in mind in any discussion of schedule 1 of that bill—that is, first and foremost this was an election commitment. It was an election commitment that had been put on the public record and was before the Australian people well and truly in advance of the election. I note that this particular measure had been a part of the Australian Labor Party's official platform since 2004, so it is not a measure that should have come as a surprise to anyone. For those who were not aware of that particular provision within the platform, I note that the then shadow finance minister, Lindsay Tanner, released a media statement on 2 March 2007 entitled 'Labor's \$3 billion savings plan'. In that media release it was also made clear that it was a clear component of the Labor Party's election manifesto that we would be going to the campaign with a view to removing the tax deductability of political contributions, so it should not have been a surprise to those on the other side when this was included in one of the first revenue bills to come before the new parliament. It was brought as a revenue measure, because quite frankly it is a significant revenue measure. We are talking about over \$30 million, over \$10 million in each year. That is why it was brought as a revenue measure, and that is why the position that has been taken by those on the other side really does reinforce the view that they are committed to playing the role of the economic vandal when it comes to this government's budget.

We are all aware of the pressures on inflation and the pressures that those pressures place on interest rates. That is why this government has handed down a budget that has delivered a \$21 billion surplus. Opposing this measure is just another example of how those on the other side are determined to punch a hole in that surplus. It is important that this measure go through on revenue grounds, but there are also other important reasons as to why these measures are important and should be supported. They go to the very heart of the operation of our democracy. They go towards issues of political participation and the right of all citizens to equally access the rights and obligations that come with political citizenship in this country. I note that in the report a number of significant points were set out in relation to a summary of a review that was undertaken in the United Kingdom in 1998. It went through and looked at the pros and cons in relation to this issue of the tax deductability of political contributions.

It has been suggested by the member for Stirling that there has been inconsistency on the part of the Labor Party over the years, and it is true that in the past the Labor Party in government and in opposition has supported measures to allow tax deductability—albeit in very limited circumstances—for political contributions, but I do not think the Labor Party, or any political party for that matter, should be bound by some previous position that it has held. Clearly, we would not advance any new positions if that were

the logic that we were to follow. I should make the point that, on those occasions that the Labor Party has supported tax deductibility for political contributions, it has been applied to a fairly low cap. In the original legislation the cap was imposed at \$100. In effect the tax-deductibility provisions amounted to no more than a tax deduction for political party membership. In effect, most of the beneficiaries of those particular provisions were people that joined political parties and were able to claim a tax deduction on a decent part, if not all, of their membership fees.

We have seen the evolution of the provisions on tax deductibility and the debate has moved on, particularly with the increase of that threshold from \$100 to \$1,500. I think most people would understand that that is well and truly greater than any amount that individuals would be required to pay to be active and paid-up members of political parties. That has taken this whole debate into a new realm, and that new realm is fairly and squarely in the domain of contributions by private donors to political parties. In our democracy, that is encouraged or at least not discouraged.

But, when we look at the contributions of private individuals to political parties, a very significant question has to be asked. The committee in considering these matters homed in on this question. In a context where public funding is provided for political parties, how appropriate is it that a private tax concession be provided to individuals who make campaign finance contributions? In an environment where there is significant public funding for political candidates and parties, why is additional tax relief—or additional public subsidy—required for those individuals? Firstly, they have the money to make contributions. On that point—and it is a significant point—in my electorate there many families and many individuals doing it tough at the moment. A lot of them, if they were listening to this debate, would be scratching their heads to think that someone has got \$1,500 to spare to make a contribution to a political party. Many low-income workers in my electorate really would not be able to fathom the fact that someone might have that amount of money to just write a cheque and go down to a political fundraiser and hand it over to someone to assist them in their future campaign. That goes to the issue of whether or not you even have the capacity to make a contribution; there are many people that do not.

But, when we look at the way in which tax-deductibility provisions operate, by their nature they do provide a greater benefit to a higher income earner. As the opposition members of the committee indicated, that is the case with all tax-deductibility provisions, not just those applying to political contributions. It is important in the context of this debate to make the point that we are not just talking about a run-of-the-mill tax deduction; this is not an ordinary, plain, vanilla tax deduction. Most tax deductions are received as a result of expenses incurred by individuals in the course of deriving their assessable income. Most deductions relate to an expense that you incur in the course of producing your assessable income. The basic philosophy is that if you incur costs in order to make money then you should have some tax relief on those costs. That is a fundamental principle of taxation policy. Outside of those general principles, there are specific tax deduction provisions that relate to charities. Those provisions are grounded in the public policy attached to providing some benefit to those with a sense of philanthropy who want to make a contribution. Our system provides people, in limited circumstances, with tax deductions for those types of expenditure.

In relation to charities, I would just make this point: under the current system, if these changes are not made, you have a situation where on the one hand you have charities that are able to receive contributions from individuals that are tax deductible, provided they are a deductible gift recipient, while on the other hand you have political parties able to receive funds that are tax deductible up to

the limit of \$1,500. But there is a whole range of non-profit organisations out there that are currently denied the opportunity of being a deductible gift recipient. That means that only organisations that are deductible gift recipients or contributors are entitled to the benefit of a tax deduction if they make a contribution to those entities. Those particular organisations are denied the opportunity to be a deductible gift recipient organisation for the simple reason that they may have a political or quasi political purpose.

At one end of the spectrum you have the charities, at the other end of the spectrum you have the political parties that receive these contributions and in the middle you can have a series of non-profit organisations pursuing legitimate activities on a non-profit basis. In respect of those particular organisations, anyone making contributions to them is not given a tax deduction. I have to say, having dealt with many organisations in the non-profit sector in the past, there are many organisations out there engaged in legitimate beneficial activities to the community but because they have a political or quasi political purpose they are denied the benefit of any tax deductability. It stands to reason to me that, looking at the spectrum of organisations there, there is absolutely no justification for providing any tax deductability to contributions to political parties.

On the issue of equity, I make the very obvious point that low-income earners, in particular those not paying tax, will get no benefit out of provisions that provide tax deductability for contributions. To starkly illustrate this, we should have a look at some of the figures provided in the report. For someone who currently has a marginal tax rate of zero—they do not pay tax; there are plenty of tax exempt organisations, but also individuals who do not pay tax because they do not earn sufficient income in order to be required to pay tax—on a \$1,500 donation or contribution to a political party in the course of the financial year, those individuals will not receive one cent in a tax subsidy from the government. So if they make a contribution of \$1,500, their out-of-pocket expenses are \$1,500. Let us look at the other end of the spectrum. If you earn over \$150,000, on that \$1,500 contribution the government, us as taxpayers, will put \$825 back in the pocket of that person who made the contribution.

Those on the other side talk about the need to avoid influence peddling, and I totally agree. We need an up-front, transparent democracy where there is no incentive for people to try to buy influence. But why should those who have the capacity and who are high-income earners derive a significant benefit from contributing to a political party when those who do not pay tax—and they are not an insignificant number of people—do not? The report points out that 2.1 million individual taxpayers in the year 2005-06 had a taxable income of less than the tax-free threshold. So 2.1 million taxpayers in this country, and we can assume that the majority of them are citizens, are denied any benefits of political participation so far as these particular measures are concerned. I think it is a point worth making. It is not just simply one that can be disregarded, as those on the other side say, by simply saying that any tax deduction will suit higher income earners more than lower income earners. Clearly that is the case. But when it goes to the heart of someone's ability to participate in the democracy then I think that, as a matter of public policy, it requires us to intervene.

I simply conclude by making this point: it is entirely appropriate for taxpayers to make a contribution to the health of their democracy, and that is why I am a great supporter of a system of public funding, but it is an entirely different proposition to expect the taxpayer to provide tax relief to those individuals that exercise choice in terms of where they are going to make their contributions. They exercise that choice and often derive a benefit from it. I am not suggesting that it is by way of anything illegitimate, but often



in attending functions there is at least a minimal benefit associated with what they derive. Why should their political choices be subsidised when there is already a system of public funding in place? Surely taxpayers as a whole should be subsidising the political process rather than picking and choosing and allowing individuals to make their own choices and then derive a benefit out of our common stock of funds.