

When not to have a Tax Review

The Commonwealth Government's planned introduction of the Resource Super Profits Tax (RSPT) on the back of the release of the Henry Tax Review could not be described as a successful implementation of tax reform by any stretch of the imagination. For a parliament that is fast gaining a reputation as the "government of unintended consequences" the reaction to both the Henry Review and the RSPT would appear to have been inevitable.



Without a doubt the business community has taken a battering from the current Commonwealth government. Changes to the labour laws and the introduction of the Fair Work Australia Act increased the cost of doing business for most small to medium enterprises overnight. Restrictive practices were reintroduced and the level of enforcement elevated immeasurably. This all adds cost to a business. The Award Modernisation exercise, which reduced the number of awards from over 4,000 down to approximately 120, has been an outstanding demonstration of how to inject complication and confusion into a supposedly simple process. The decision to add transitional arrangements has elevated the industrial relations system in Australia from hesitancy and confusion to utter chaos. Neither employers nor employees understand the current system and over 140 years of industrial precedence has been scrapped and will need to be established from scratch under lengthy and costly litigation processes.

Next came the wonderful Emissions Trading Scheme and the government's attempts to not only level another charge (tax) on the entire community but at the same time severely damage the international competitiveness of Australian business. The Commonwealth appeared intent on placing Australia at the bleeding edge of ETS irrespective of what was happening in the international market place and they wondered why the business community and others reacted so negatively to the proposal. It is probably important to point out that those nations that are considering the introduction of Emissions Trading Schemes all generate or have the capacity to generate their base load power supplies from a source other than fossil fuels. Australia at this stage cannot do that.

Moving on from there we then had the great home insulation program to assist all home owners to save money on heating and cooling costs brought about by rising energy costs from the introduction of the ETS. They cancelled the former because the obvious cost to business proved to be prohibitive. They cancelled the latter because of incompetent administration by the government agencies involved and the in cost in human lives as a result of that incompetence. This effectively put a number of organisations out of business and cost jobs because they had been encouraged to get involved in the program in the first place. More "unintended consequence"?

Lastly let's talk about the Henry Tax Review. If ever there was a pointer to lack of understanding or political experience then the handling of the Henry Tax Review has to be it. The most inexperienced politician will tell you that you don't give the electorate bad news and then ask them to elect or re-elect you. Any Tax Review is going to have both winners and losers and is usually a long term strategy. The tax system in Australia is antiquated and unjust with left over imposts from World War II and other items that should have been scrapped long ago. To achieve proper alignment is difficult and painful for all. You just don't release a Tax Review document in an election year unless you are stupid or extremely arrogant. You then don't compound the error by picking one of the most

controversial issues contained in the document and attempting to implement it on the sector of the economy that has not only carried the country through the recent economic difficulties but has the potential of making or breaking the economy for years to come. It is the resources boom that gave the Australian economy the strength it needed to weather the Global Financial Crisis and it is the resources sector which is expected to aid and abet the eventual recovery of other economic sectors going forward.

In taking on the onshore resources industry the Commonwealth government has managed to alienate a major contributor to national wealth and employment. The broadness of the original proposals and total lack of consultation until after the announcements were made meant that a careful analysis of the proposed tax, as originally presented by the government, would have meant increased costs for all Australians through taxes on coal for power generation to increased costs for building supplies from gravel and lime quarry taxes to increased paper costs from a tax on mining of various clays used in production. It also means increased costs in production of bulk ores such as iron ore, manganese, lead, copper, zinc, and various other metals. Because it includes on-shore resource activities it could kill the fledgling coal seam gas projects in Queensland and the renewal energy “hot rock” programs across the country. Did someone say “unintended consequences”?

Current opinion polls would suggest that the current Federal Government could lose all of its sitting members in Western Australia as the inhabitants of that state understand the importance of the resources sector and the effect the RSPT would have on their state economy. Given that the Northern Territory is the only other jurisdiction where resources make up more than 25% of gross state product, we need to ensure that the message is getting through to our Federal members loud and clear. In its current format the RSPT is a perpetuation of the current tax arrangements and not a reform at all. The Territory government needs to be involved as well as future growth prospects could be severely undermined. The local economy is small and susceptible to variations. The future of all Territorians rests heavily on the resources sector and those that service it. Introduce a discriminatory tax regime and we will see investment withdrawn to other sectors and other parts of the world.

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