

# NEW TAXATION PROPOSALS EXPLAINED

## BY STATE TREASURER

### WHAT THE INDIVIDUAL MAY HAVE TO PAY

### "BUDGET WILL BE BALANCED"

#### POSSIBLE PROVISION FOR PAYMENTS BY INSTALMENTS

The Treasurer (Mr. Hill), moving the taxation proposals in the Assembly yesterday, said he introduced them with a full realisation of their effect upon the economic life of the community. He knew that under ordinary circumstances they could not be justified, and that Parliament might rightly refuse its sanction to taxation burdensome to the taxpayer, and subversive to the expansion of commercial and industrial enterprise, but he claimed that ultimately the taxation would be accepted as a necessary first step in the process of financial reconstruction, both for the Government and private enterprise.

It was conceded, said Mr. Hill, that the Budget must be balanced. That was a condition essential and precedent to the stabilisation of their finances and the ultimate improvement of their credit. But the Government realised quite well that there was a matter which far transcended that in importance, and that was the restoration of the economic equilibrium of the State, for upon that depended the progressive expansion of industries, the absorption of the unemployed, the righting of the adverse trade balance, and the reduction of interest on the huge public debt. Consequently the taxation measures must be considered as necessary and preliminary steps in a general programme of reconstruction, but only until the benefits of that programme made their continuance unnecessary. The immediate purpose of the proposals was to ensure sufficient revenue to balance the Budget. Members realised how outstandingly desirable that was in itself, but under existing circumstances it was imperative.

South Australia had set its hand to an agreement which bound them to that course, not merely as an act of financial rectitude, but as a question of self-preservation. It was the first step, taken in common with all Australian Governments, on the difficult path of financial stabilisation.

#### Serious Position Realised

It had been widely stated that the determination of the various Australian Governments to balance their Budgets was solely due to the visit of Sir Otto Niemeyer to Australia, but the Treasurers of the States had fully realised the seriousness of the financial position of Australia, and the absolute necessity of balancing Budgets before ever Sir Otto arrived. It was not until June 20 that it was announced in the press that Sir Otto Niemeyer was to visit Australia. In the meantime his Government had been considering the serious financial position, and on June 24 appointed the Advisory Committee on State Finance. On July 8 he made an important statement to Parliament, outlining the policy proposed to arrest the financial drift and enable them to live within their income. That was before Sir Otto had arrived in Australia. It could not be said that his policy to balance the Budget was dictated by Sir Otto.

#### Negotiations with Federal Government

The South Australian Government began negotiations with the Federal Government for special financial assistance, and before Sir Otto had addressed the various Treasurers, had made representations to the Loan Council, the Prime Minister, and Federal members for a grant to enable the Government to balance accounts. That was on July 25, and it was not until the Loan Council meeting on August 5 and 6 that Sir Otto first addressed the Treasurers on the financial position. What Sir Otto told the conference confirmed the opinion already held by the various Treasurers as to the

State Finance. The fact that that committee of experts supported the Government's proposals was evidence that they were essential, and that Parliament should accept them. The proposals were calculated to return a revenue slightly in excess of £2,000,000. The extent to which they would have had to be increased but for the success of their claim upon the Commonwealth Government was therefore apparent, and taxpayers had some reason to be grateful to the Government for its determined and successful efforts to secure financial recognition of their disabilities. How serious the position was could be gathered from a knowledge of the losses due to business undertakings, the figures for which were:—

Loss after paying interest—	
Harbors .. .. .	£47,858
Advances for homes .. . . .	8,588
Railways .. .. .	1,680,356
Country waterworks .. . . .	369,244
Land repurchased for closer settlement .. . . .	22,776
South-Eastern drainage .. . . .	49,152
Improvements on pastoral leases .. . . .	37,176
Irrigation and reclamation .. . . .	249,851
Railway relaying .. . . .	69,698
Railway depreciated assets .. . . .	165,603
Water conservation .. . . .	79,371
Murray River weirs, dams, and locks .. . . .	109,394
Produce Department .. . . .	28,895
Sundry works .. . . .	363,241
Total .. . . .	£3,281,203

#### Payment By Instalments

Doubt had been expressed whether the estimates of revenue would be realised, but so far as the taxation estimates were concerned, a reduction of 33 1-3 per cent. in incomes had been allowed for. It must be remembered that the income tax would be levied on the incomes earned during 1929-30, and the reduction of 33 1-3 per cent. was on that income, compared with that for 1928-29. The Estimates had been prepared by responsible officers, who should be the most competent persons to express an opinion as to the amount of revenue likely to be raised. He realised that to people on small incomes it would be a hardship to call on them to pay all their income tax at one time, and the question of evolving a satisfactory system of payment by instalments, or some other method of payment, was now receiving the consideration of the Government. If a satisfactory system could be devised it would be put into effect.

Had it not been for the successful efforts of the Government in obtaining a grant of £1,000,000 from the Commonwealth Government, the taxation that would have been necessary this year would have been much heavier than the present proposals—burdensome though they were. Although the Commonwealth and State Governments unanimously agreed that the £1,000,000 should be paid to South Australia, it should be remembered that the money would not be received until the end of the year. The position would be serious if no grant were received the following year. The Government was going to pursue a vigorous policy of economy in all services, and after the

impose an unmarried persons' tax on all unmarried persons of either sex of the age of 21 years or more, on male divorced persons who had not remarried and had no children, and on widowers without children, and the rate would be £1 for every £100 or fractional part of £100 of the taxable amount of income of the taxpayer. In computing the taxable amount of income, of course, the statutory deduction of £100, or such less amount as was applicable, would be allowed. The present minimum tax of £1 would be abolished.

#### Poll Tax

Resolution No. 8 provided for a new form of tax in the nature of a poll tax, at a flat rate on every person who had any taxable amount of income; that was to say, whose net income before making the statutory deduction exceeded £100. That tax was at the flat rate of £2 10/ in every case, and was in addition to all other taxes payable by the taxpayer.

Resolution No. 9 covered a dividend tax of 6d. in the pound. Dividends would not be included in the taxable amount of income for the purpose of assessing the rate at which tax must be paid, nor would any tax other than the dividend tax of 6d. in the pound be payable on dividends. It was proposed to impose that tax on all dividends received by residents of the State, irrespective of the country in which the dividends were earned.

#### "General Exemption"

Resolution No. 10 altered the statutory deduction or, as it was sometimes called, the "general exemption." At present the statutory deduction was £100. It was proposed to provide that the deduction should diminish by £1 for every £9 by which the net income of the taxpayer exceeded £100. If the income of the taxpayer was £190 the deduction would diminish by £10, and therefore be £90. If the income of the taxpayer was £1,000 the deduction would be diminished by £100, that was to say, by £1 for every £9 of the amount by which the income exceeded £100, and would accordingly be nil. The existing provision allowing a widow with one or more children under the age of 16 years a deduction of £200 in all cases was retained.

Resolution No. 11 proposed to abolish the deduction at present allowed in respect of the amount of Federal income tax paid by the taxpayer.

Mr. Laffer—That is unfair.

The Treasurer said that South Australia alone of all the Australian States permitted that tax as a deduction for companies and, with the exception of Western Australia, was the only State to allow the deduction to individuals. At present it was an anomalous position that the amount of tax imposed by the Commonwealth on income, such as interest on Government securities, and Commonwealth Loans, which were not taxable by the States, should be allowed to be deducted from State income. The Government anticipated that the proposal would result in £50,000 additional revenue.

Mr. Butler—It is not income. The tax is not justified.

The Treasurer—What about the other States? They impose the tax.

#### Abolition of Tax on Residence

Resolution No. 12 proposed to abolish the provision which required taxpayers to return as income 5 per cent. of the actual value of land and improvements used by them for the purpose of residence. The abolition of that item would simplify returns to some extent and achieve uniformity in State and Federal practice. No appreciable loss of income was anticipated from that proposal.

#### Life Insurance Companies

Resolution No. 13 contained a proposal that life insurance companies should be taxed at the same rate as other companies. Under the existing law life insurance companies were taxed only at half rates. That provision had been in the law for some time, doubtless with the laudable intention of assisting life insurance companies and promoting thrift on the part of the public by enabling life insurance companies to offer good terms to their policy holders; but the plain fact of the matter now was that the Government could not afford to neglect that source of revenue, and therefore must put life insurance companies on the same footing as any other companies.

#### Co-operative Companies



formed the opinion already held by the various Treasurers as to the seriousness of the financial position, and the necessity of Governments balancing their Budgets. No agreement was made with Sir Otto Niemeyer to balance Budgets, as some people thought. After hearing his address, as well as conferring with Sir Robert Gibson (chairman of the Commonwealth Bank), representatives of the various Governments passed a unanimous resolution declaring their fixed determination to balance Budgets for 1930-31. The information he had just given proved conclusively that the Treasurers of the various States and the Commonwealth fully realised the seriousness of the financial position, and had resolved that what was essential to restore their financial position was to balance Budgets. The fact that so distinguished a financier as Sir Otto Niemeyer also pointed out the necessity of each Government balancing its accounts was concrete evidence that the Treasurers were working along right lines.

The leader of the Opposition (Mr. Butler)—There is no alternative.

#### Where £1,000,000 Could be Saved

Failure to balance the Budget might easily result in a general stoppage of public services from the sheer inability of the banks to finance a deficit. Members appreciated how difficult was the Australian cash position and how unsafe it would be to assume that bankers could do any more than provide credit facilities to cover the ordinary lag in revenues. An improvement in credit, both at home and abroad, would be a certain result of balanced budgets, and if that could be achieved by substantial reductions in both expenditure and taxation in the near future then they would be well on the way towards the Government's aim of restored credit and lower interest rates. How vital that was would be realised from the fact that a reduction of 1 per cent. in average interest rates on the State public debt would reduce the interest bill by £1,000,000 a year.

Their credit was such to-day that no Australian State could borrow abroad, and consequently maturing loans constituted a grave menace to their financial position. They were not in a position to redeem loan debts upon maturity, and must endeavor to renew them. Unless credit improved renewals must inevitably be at higher interest rates, thus adding to the already intolerable drain upon income. How greatly that drain might be lessened was clearly indicated by recent loan transactions abroad. The Canadian Government placed £20,000,000 refunding loan with a 30-year currency, carrying interest at 4 per cent. on the New York market, and it was heavily oversubscribed in a few hours. The British Treasury invited applications for Treasury bonds (1934-1946) at 4 per cent., and the total tenders received amounted to £116,000,000, of which £105,000,000 was accepted. The minimum price of tender was £100 10/, and those who tendered at that price received only 56 per cent. of the amounts applied for. Those instances surely indicated that Australia's difficulties in the money markets of the world were due entirely to the poor regard in which she was held as a debtor nation, and the righting of that unhappy condition rested with themselves.

#### Advice of Committee of Experts

The Government had given full consideration to the manner in which the necessary revenue should be raised, and had had the valuable advice and assistance of the Advisory Committee on

economy in all services, and after the results which had already been obtained in the railways and other departments, was satisfied that, provided the financial relationship of the State and the Commonwealth could be equitably adjusted, it could give the assurance that the heavy burden of taxation being imposed could be considered as temporary, and would ultimately be reduced to a level consistent with the resources of the people.

#### Details of Proposals

Dealing with the resolution in detail, the Treasurer said that the intention was to raise the rate of land tax, and additional land tax by one farthing in the pound, and reimposed the super tax of 25 per cent. on those taxes. The land tax, as members were aware, was at present three farthings in the pound on the unimproved value of all land of the taxpayer, and an additional tax of three farthings on the unimproved value of land held by the taxpayer in excess of £5,000. Those taxes on last year's assessment gave a debit for land tax and super tax, of £462,000, of which £440,000 was actually collected, and of which most of the balance would be collected in future. The new proposals, with a 25 per cent. super tax, were estimated to produce £542,000. The proposals of the Government with regard to the incomes of individuals, both from property and personal exertion, were to merge the present super tax of 25 per cent. in the ordinary rates, and to increase those rates.

#### Tax on Income of Individuals

Resolution No. 4 set out the new rate of tax on the income of individuals. Under the existing law the rate of tax on personal exertion income, taking super tax into consideration, was 6.256d. where the taxable income was £1, and it increased by .00625 of a penny for each increase of £1 in the amount of the taxable income. The maximum rate was reached when the income was £5,000, the rate then being 37½d. It was proposed by the resolution to raise the initial rate of 6.256d. by a little over 6d., and to adopt an increment in the rate per pound sterling of six one-thousandths of a penny. The initial rate, therefore, would be 13.006d. on a taxable income of £1, and the rate would progress until a taxable income of £7,000 was reached, at which stage it would be 55d. That rate would apply as a flat rate to all taxable incomes from personal exertion over £7,000.

#### Property Tax

Resolution No. 5 proposed to increase the rate on income derived from property. That proposal, however, would be limited to the incomes of individuals, since the Government did not intend to alter the present rate of tax payable by companies. The present rate of tax on income from property (taking super tax into consideration) began at 13.756d. on a taxable income of £1, and increased by .00625 of a penny for each increase of £1 in the amount of the taxable income. The maximum rate was reached on incomes of £5,000, the rate then being 45d. Under the proposals the initial rate was increased by a little over 6d., and the rate of increase a pound sterling was fixed at .006 of a penny. The new initial rate accordingly would be 20.006d. on a taxable income of £1, and the maximum rate would be reached on incomes of £7,000, at which stage the rate would be 62d. in the pound. That rate would apply as a flat rate to all incomes from property over £7,000.

#### Income of Companies

Resolution No. 6 dealt with the rate of income tax on the income of companies. That rate was retained as at present; that was to say, 11.005d. where the income is £1, increasing by .005d. for every increase of £1 in the taxable income until a maximum of 30d. in the pound was reached on an income of £5,000. The existing super tax of 25 per cent. was also retained, in accordance with the decision of the Government not to alter the company rate.

#### Unmarried Males

Resolution No. 7 proposed an alteration in the unmarried persons' tax. Under the existing law an unmarried male person more than 19 years of age, other than a returned soldier, was liable to pay the unmarried persons' tax which, with super tax amounted to £1 5/, and a minimum of £1. Under the proposal solution it was proposed to

#### Co-operative Companies

Resolution No. 14 proposed to alter the principles on which co-operative companies were taxed. The existing law was that the income of a company or society not carrying on any business for the purpose of gain to be divided among the members or shareholders thereof was exempt from income tax. The interpretation of that provision had been to the effect that if a co-operative society did business entirely with its own members it was not carrying on business for the purpose of gain. If, however, a co-operative society did business with any persons who were not members of the society, any profits arising from that business were taxable under the Act, and to that extent the company did not enjoy the exemption at present provided by law for companies not carrying on business for gain. It appeared, however, that some co-operative companies did, in fact, make a profit on the business done with their members; that was to say, the whole of the surplus arising from the transactions between the company and its members was not distributed among the members by way of rebates on purchases or otherwise, but some parts of the surplus were retained by the company. That undistributed surplus was undoubtedly profit, and it was proposed to bring the whole of the income of a co-operative society within the purview of the Taxation Acts, but to allow the society to deduct from its gross income, among other allowable deductions, so much of the gross income as was distributed among the members of the company by way of rebates. The balance would be taxable. The effect of the amendment would be very largely to place co-operative companies in the same position under State law as they were in under Federal law.

The alterations in the law regarding the collection of income he did not propose to deal with at present. Their effect would not be to impose new taxes, but merely to clarify some of the rules applicable in determining what was income arising within the State, to simplify the machinery for getting in returns, and to prevent devices for evading taxes. It would be much more convenient to deal with those proposals when members had before them the actual text of the Bill. He asked the committee merely to pass the resolution as a covering resolution required by the Standing Orders, to cover a number of miscellaneous provisions which would be in the Bill.

The Treasurer said arrangements would be made, if possible, for the payment of the taxes by instalments in weekly or monthly amounts. It would be a good idea if the banks opened accounts, which could be accumulating interest while waiting for the assessments, and then the total amount could be paid.

Mr. Butler—Arrangements might be made with the Savings Banks.

The Treasurer said he desired that the debate should be conducted in Committee, and he was anxious that the measure should be passed as soon as possible.

Progress was reported.