SUBMISSION ANALYSING TAXATION ISSUES AFFECTING MAJOR PROJECTS

INTRODUCTORY

This supplementary submission deals with certain aspects not fully developed in the architecture paper.

BACKGROUND

The capital cost of any infrastructure project which is expected to benefit the community for many years to come should always be financed out of loan funds and not out of taxation. Only interest and amortisation charges each year, being recurring revenue items, should be paid for out of taxation.

It is most equitable that the costs of such projects should be borne by the persons expected to benefit from the assets during the lifetime of such assets, rather than solely by the persons who happen to be taxpayers at the time of construction.

Borrowing for capital works by the Commonwealth government or by a State government, or for that matter by a local government body, is sound. It is quite different from borrowing for consumption purposes. Using loan funds in this way is quite common for companies in the private sector - and governments should use the same principles.

Furthermore, loan securities issued by government borrowers tend to be very attractive to some fixed interest investors in the private sector, thus creating a "win, win" situation.

THE MAY 2008 BUDGET

In its May 2008 budget the Rudd Government reported a surplus of some $22 billion. It announced that this would be used for capital works over the next few years.

However, as this surplus had arisen out of taxation in excess of expenditure requirements, in equity it belonged to the current taxpayers and should really have been returned to them, rather than used in effect to give windfall gains to their successors.

INFLATION ASPECTS

Paying for infrastructure out of budget surpluses, while superficially attractive as an anti-inflation device, is not a desirable procedure either.

Such surpluses are derived from taxation revenue and not from capital sources. Therefore from a moral perspective budget surpluses should always be returned to the generation that provided them. They should not be used to benefit mainly future generations.

Whether infrastructure per se is inflationary or not is not a function of whether it is funded out of taxation or out of loan funds. Rather, it is a function of the human and material resources needed for large projects.

If, for example, skilled labour is in short supply then wages will rise and this will feed into inflation, unless the demand for this can be satisfied by migration and/or training.

PUBLIC PRIVATE PARTNERSHIPS

In recent years many state governments have chosen to form a public private partnership (PPP) when a major development is under consideration. This is an arrangement under which an infrastructure project benefiting the community is funded and operated by a partnership involving the government and one or more private sector companies, often under a long term contract at the expiry of which the entire assets vest in the government concerned free of debt.

Typical contracts involve the private sector in financing, designing, building and maintaining public infrastructure, and in some cases also delivering associated services.

The theory is that a private sector organisation can manage such a project more efficiently than a government agency. Usually the intention is also for a smaller call on taxpayer funds and for the bulk of the business risks to be borne by private sector investors.

However, working in the opposite direction are the higher costs for the community that are inevitably involved in such arrangements. A private organisation needs to pay a higher interest rate than a government borrower and it also needs to impose terms that enable it to earn a commercial profit commensurate with the risks being undertaken. There is no such thing as a free lunch.

Furthermore, if anything goes wrong, then the government concerned may, as a practical measure, have to bail out the partnership by using the public purse.

PUBLIC TRANSPORT

Public transport systems in Australia, as in most other countries, are heavily subsidised out of taxation revenue. Fares cover only a relatively small portion of their total costs.

Privatising the system operators is no solution either - see the comments on public private partnerships above.

Apart from a small number of toll roads, which are discussed below, the nation's road network is built and maintained at public expense. Travellers by road do not pay on a "per use" basis. In the interests of equity, why should not travellers on public transport have the same privilege?

Curiously, public transport systems are always said to be running at a loss, but nobody ever points out that on the same reasoning the road network runs up a substantially larger loss per person using it.

It would be much better to make public transport free to users and to cover the costs out of taxation revenue, in the same way as in the case of roads.

The provision of public transport should be regarded as a community service in the same way as, say, the provision of the police force - and not as a business to be run with the aim of making a commercial profit.

Abolishing fares would also:

* eliminate the considerable cost of collecting them

* eliminate the additional costs of pursuing fare evaders

* encourage motorists to abandon their cars, thus greatly reducing the amount of money that would otherwise need to be spent on the road network and on reducing congestion.

The provision of roads by private businesses under arrangements which authorise these to collect quasi-taxes (tolls) from road users is another example of governments believing in smoke and mirrors.

Clearly, the cost to the community of such toll roads is much greater than the cost of equivalent roads provided out of loan funds raised by the public sector.

The operators have to recoup both the higher interest charges they incur as private sector borrowers and the costs of actually collecting the tolls.

They also have to make a commercial profit.

The community also incurs a hidden cost - that caused by the congestion on some nearby side streets as motorists seek to avoid incurring the tolls.

Because toll roads involve only a limited number of suburbs, the system also creates inequities between motorists travelling through these and those travelling similar distances elsewhere.

CONCLUSION

The proposed tax reforms should have regard to the philosophical aspects discussed above.

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