

ABORIGINES AND THE AUSTRALIAN TAXATION SYSTEM

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Research into Aboriginal economic issues has been relatively neglected, particularly when compared with the linguistic, ethnographic and health aspects of Aboriginal people. This is particularly the case in relation to taxation. It has generally been assumed that most Aboriginal people are either too poor to pay tax, or that many are beyond the reach of the taxation system because of their geographical dispersion and remoteness.

There are significant exceptions - studies which have examined some of the relationships between Aboriginal people and the taxation system. Fisk (1985) presented a comprehensive examination of the Aboriginal economy nation-wide, but his wide scope precluded detailed discussion. There is also considerable literature commenting on Aborigines and mining-related taxation, particularly with respect to royalties raised from petroleum and mining production on Aboriginal land in the Northern Territory (Altman 1984, Altman and Peterson 1984).

Recent Government inquiries into Aboriginal matters have also tended to neglect Aboriginal taxation issues. Neither the Miller Report (Committee of Review of Aboriginal Employment and Training Programs 1985), nor the Blanchard Report into the homelands movement (House of Representatives Standing Committee on Aboriginal Affairs 1987) specifically addressed taxation issues. The report of the Committee of Review of the Aboriginal Arts and Crafts Industry (Altman 1989) did refer to taxation issues. However the analysis of the Committee was constrained by the decision of the Australian Taxation Office not to make a submission to that Committee.

However, the National Reports of the Royal Commission into Aboriginal Deaths in Custody, released in April 1991, did specifically discuss a number of economic issues. These Reports are likely to contribute significantly to policy formulation during the next few years. The Royal Commission concluded that the interaction between Aboriginal people and of the taxation system was a sufficiently important issue to recommend that further research should be undertaken on "the impact of the overall taxation system on Aboriginal people and on Aboriginal organisations, and the extent to which Aboriginal people benefit from the Australian Taxation System" (*National Report* Volume 4 1991:447)

The neglect of Aboriginal economic issues in the past has had important implications for effective policy making. Although governments have committed substantial resources to Aboriginal 'development' in the past two decades, they have rarely demanded comprehensive research into the economics of Aboriginal Australia. Aboriginal affairs policies have been developed without an adequate understanding of the dynamics of the relationship of Aboriginal people to the broader Australian economy.

Economic and financial issues are becoming more important, particularly because of increasing government demands for financial accountability by Aboriginal people and their organisations. In addition many Aboriginal organisations have come to recognise that an understanding of such issues is essential if they are to develop effective responses to the complex issues facing Aboriginal people.

Aboriginal people are collectively the poorest section of Australian society. This would suggest that Aboriginal people interact with the taxation system in a similar way to other socio-economically disadvantaged groups in Australia. However, the history of the dispossession and dispersal of Aboriginal people has also resulted in some unique relations with the Australian state, including taxation matters.

Despite the high level of unemployment experienced by Aboriginal people, income taxation payments appear to be quite substantial. In addition, Aboriginal people contribute significant amounts by way of

indirect taxation, including sales taxation and fuel taxation. These taxes are regressive in their impact, and significantly increase the costs of goods and services. Further, it is certainly not apparent that the revenue from fuel taxation paid by Aboriginal people, for example, is used for maintaining and constructing roads in Aboriginal communities.

Although considerable sums are spent on Aboriginal affairs programs, this expenditure is overshadowed by very large tax expenditures which are built into the Australian taxation system. The bulk of these tax expenditures are accessed by higher income earners and companies. The tax expenditure on personal superannuation alone is more than three times the total Commonwealth spending on Aboriginal affairs programs. Although the Commonwealth Government has made positive changes to the taxation system which have benefited low income earners, there are still inequities in the system. The moves towards greater reliance on sales taxes, and the possible introduction of a consumption tax, are matters of concern for many low income people.

An examination of the interaction of Aboriginal people with the Australian taxation system must confront the continuing legacies of dispossession and the failure of governments to offer adequate compensation. A form of monetary compensation has been introduced in Australia through the taxation system, although this mechanism only operates in New South Wales and the Northern Territory because of the lack of national land rights legislation.

In early 1991 the Queensland Government announced that it would introduce land rights legislation later in the year. At the time there was some suggestion that the proposed legislation may incorporate aspects of the New South Wales and Northern Territory Acts. If a scheme similar to that operating in New South Wales had been operating in Queensland in 1990-91, Aboriginal people would have received more than \$14 million (7.5 per cent of the \$190 million in land tax the Queensland Government budgeted to collect in 1990-91). However, despite virtually unanimous opposition from Aboriginal people, the Queensland Government introduced a land rights bill that is a national disgrace. The legislation effectively excludes the overwhelming proportion of the land in Queensland from land claims by Aborigines,

and does not include the financial mechanisms of either the New South Wales or Northern Territory legislation.

It is to be hoped that legislation incorporating aspects of the New South Wales and Northern Territory legislation might be introduced in Queensland in 1991. If a scheme similar to that operating in New South Wales was now operating in Queensland, Aboriginal people would have received more than \$14 million in 1990-91 (7.5 per cent of the \$190 million in land tax the Queensland Government budgeted to collect this financial year).

The Taxation of Mining Payments in the Northern Territory

The *Aboriginal Land Rights (Northern Territory) Act 1976* formalised payments of royalty equivalents for the benefit of Aborigines in the Northern Territory. Payments are made from the Commonwealth's Consolidated Revenue Fund into the Aboriginals Benefit Trust Account (ABTA), based on royalties paid by mining companies to the Northern Territory and Commonwealth Governments. The ABTA in turn distributes these monies to the Northern Territory Land Councils, Aboriginal traditional owners of the land on which the mining is taking place, and more broadly to Aboriginal people in the Northern Territory. Between 1978-79 to the end of 1990-91, approximately \$200 million has been paid into the ABTA from the Consolidated Revenue Fund. Income (including investment income) of the ABTA in 1990-91 was approximately \$38 million.

Although ABTA disbursements may be considered as a form of compensation, the legislation which provides for these payments does not make this explicit. It remains unclear whether the royalty equivalent mechanism is a means of compensation for expropriation of minerals from Aboriginal land (under an assumption of Aboriginal collective ownership of resources), compensation for the negative social and environmental effects of mining activities, or a source of economic rent (Altman 1983:6-7).

An important taxation issue associated with the ABTA is the levying of mining withholding tax by the Commonwealth Government. The levying of this tax assumes that payments from the ABTA are to individuals who will not declare these payments as income for taxation purposes. However, most of the money is disbursed to the Land Councils and to incorporated Aboriginal organisations. In practice very little of the money is paid to individual Aborigines. It is quite inequitable for mining royalty equivalent payments to continue to be treated as though they were distributed to individual Aborigines as personal incomes.

The withholding tax was imposed under the *Income Tax (Mining Withholding Tax) Act 1979* amendments to the *Income Tax Assessment Act 1936*. Originally the rate was 6.4 per cent of the mining payments, but since December 1986 it has been 5.8 per cent. This was derived arbitrarily by calculating 29 per cent (representing a "standard rate of tax" in 1979) of 20 per cent of mining payments. In the two years 1988-90, mining withholding taxation paid from the ABTA was about \$2 million.

Payments of negotiated royalties by mining companies to Aboriginal communities affected by the mining activities, and rental and lease payments by the NT Department of Mines and Energy, are also liable to mining withholding taxation. In some cases payments are made to individual Aborigines. In 1988-89 more than \$65,000 in mining withholding tax was deducted from negotiated royalties and rental and lease payments in the Central Land Council region alone.

The primary practical justification for the imposition of the tax is that it is too difficult to enforce the standard income tax provisions for the small proportion of individual Aboriginal recipients. This assumes that these people have incomes above the tax-free threshold (\$5,400 as at January 1991). There was also concern expressed at the time the tax was introduced that the development of the major uranium mines in the Northern Territory on Aboriginal land would result in massive tax-free windfalls to a small group of Aboriginal people. While the traditional owners have undoubtedly benefited financially from the royalty equivalents, the payments that have been made to individuals have been relatively small.

The New South Wales Land Tax Arrangements

In New South Wales, the arrangements under which a proportion of the Land Tax revenues are distributed to benefit Aboriginal people could be regarded as a form of compensation. Under the *Aboriginal Land Rights Act 1983*, 7.5 per cent of Land Tax receipts are paid to the New South Wales Aboriginal Land Council. These payments amounted to almost \$34 million in 1989-90. Half of the 7.5 per cent is invested in a trust fund, and by June 1990 the fund had accumulated land tax receipts of approximately \$77 million. The total funds invested, including accumulated interest and rent, amounted to \$118.7 million in June 1990.

Negotiations over the future administrative arrangements for Land Councils in New South Wales have been ongoing since the beginning of 1990. The Greiner Government announced its intentions to radically restructure Aboriginal affairs in New South Wales with its Green Paper of February 1989 (New South Wales Government 1989). Many of these proposals have been subject to intense criticism by Aboriginal and other community groups and have been subsequently modified. However, the allocation of half of the 7.5 per cent of Land Tax for investment purposes will remain unchanged until 1998.

National Compensation?

It is conceivable that a system based on land taxes could be introduced for the whole of Australia, but an alternative may simply be an appropriation from the Consolidated Revenue Fund. There is a precedent with the Aboriginal Development Commission Capital Fund, established in 1980 by the Fraser Government to hold capital intended to partially compensate for dispossession.

In the three years of its existence under the Fraser Government, \$20 million was allocated to the Fund. In the 1988-89 Budget the Government announced that it would make a contribution of \$60 million to the capital base of the Aboriginal and Torres Strait Islander Commercial Development Corporation (ATSICDC), of which \$40

million would be in the form of capital subventions and \$20 million through the transfer of the existing Capital Entitlement Account of the former Aboriginal Development Commission (ADC).

The Northern Territory and New South Wales land rights acts and the ATSICDC capital fund are poor substitutes for an appropriate national compensation package. Nonetheless, their existence indicates that the importance of compensation has been acknowledged by using specific mechanisms under the Australian taxation system.

The fact that the payment of mineral royalty equivalents by the Commonwealth Government only operates in the Northern Territory means that the Government has singled out one group of Aboriginal people for special treatment, and to a large extent has abdicated its responsibilities in other parts of Australia. Aboriginal people who have no effective land rights, no control over access to their traditional lands, and limited economic resources, but who also happen to live in, say, the Kimberley region of Western Australia, or Cape York Peninsula in Queensland, do not benefit from such a financial mechanism.

The Commonwealth Government has refused to legislate for national land rights, and in doing so has effectively refused to accept that without access to land and control over development on that land, many Aboriginal people living in the more remote parts of Australia will remain disempowered and impoverished in comparison with large sections of the non-Aboriginal population. A system of royalty equivalents could be introduced in the rest of Australia. These could be based on mineral and petroleum production, or calculated on some other base such as a proportion of company tax.

Introducing a national system based on royalty equivalents would not necessarily involve a large net cost to the Commonwealth. Although the Commonwealth Government does not receive royalties from mining companies in the States (with the exception of uranium royalties in the Northern Territory), the Government does receive income tax payments from mining companies. Many of these companies operate mines, including some of Australia's largest mines, in areas where considerable numbers of Aboriginal people are seeking to regain control of their traditional lands, or who have recently been moved off these lands.

This includes the Comalco bauxite mining operation on Cape York Peninsula, the Argyle diamond mine in the Kimberley region of Western Australia, and many gold mining companies in the Kalgoorlie region of Western Australia.

These payments could be used, for example, to fund land purchases for Aboriginal people in the other States, in the absence of effective land rights legislation and land claims processes. The funds could also be used to fund the operations of Aboriginal land councils (as the ABTA mineral royalty equivalent payments are used in the Northern Territory), which would assist the traditional Aboriginal land owners to manage, and control access to, and development on, their land.

Petroleum Taxation

The regional distribution of the Aboriginal population is highly skewed towards the less populated and remote areas of Australia. This has implications for the way Aborigines interact with the taxation system. This particularly relates to the incidence of petroleum taxation and the extent to which Aborigines can make use of those tax expenditures designed to compensate remote Australians for higher costs and hardship.

As a consequence of isolation and low incomes many Aboriginal people face a high incidence of petroleum taxation. Aborigines living in remote areas are heavily reliant on goods transported over large distances, and these freight charges are built into prices.

Four distinct tiers of taxation are currently levied on petroleum in Australia. The first includes crude petroleum excise, resource rent tax, resource rent royalties, and various forms of production royalties. Crude petroleum excise is imposed on local oil producers. Petroleum taxes at this first tier are highly dependent on world prices.

The second tier is petroleum products taxation, which is levied on the refined product. Unlike the first tier of petrol tax, petroleum products tax is payable on both local and imported petroleum. For the Commonwealth Government, petroleum products taxation complements

the first tier of revenue as it can be used to offset fluctuations in taxation revenue caused by movements in world oil prices. When world oil prices rise or fall, excise rates on petroleum products can be decreased or increased to maintain government revenue.

The third tier are the wholesale franchise fees levied by the States and the Northern Territory. These fees are based on sales, and the wholesalers pass them on to consumers. Rates of wholesale franchise fees vary between the States and Territories, although there has been increasing uniformity of rates in recent years.

The fourth tier is that imposed on retailers. This takes the form of a licence fee, levied by the States and the Northern Territory. The revenue gained from licence fees is small.

To illustrate the extent to which Aborigines incur petrol taxes the petrol consumption statistics of a number of remote Aboriginal settlements in Central Australia were investigated. The data were obtained from a petrol wholesaler servicing remote settlements in the southwestern Northern Territory (Docker River), about 60 per cent of communities in the Pitjantjatjara Lands of South Australia and the Central Reserves of Western Australia (the Ngaanyatjara Lands). Approximately 2,800 people are serviced by the wholesaler.

The communities purchased about 1.3 million litres of diesel and 431,000 litres of super in the calendar year 1988. These purchases provided the Commonwealth Government with petroleum products (second tier) revenue of about \$275,000 in the case of diesel and about \$92,000 in the case of super (at the prevailing excise rate of 0.2153 dollars per litre). Third tier (State and Territory) taxes added a further \$37,500 in the case of non-road used diesel and \$17,700 in the case of super. Total government revenue from the consumption of petrol by these communities was about \$423,000 in 1988. On a per capita basis the residents in these remote areas of Central Australia (overwhelmingly Aborigines) paid an average of \$151 per annum to governments in the form of petrol tax. This is a relatively high burden for these people to bear, as incomes in these areas are appallingly low. These payments do not take into account the extent to which fuel taxes

are incorporated in the prices of goods and services purchased by these communities.

To compensate remote Australians for their relatively high reliance on road transport (and consequently their higher exposure to petroleum taxation) the Commonwealth established the Petrol Freight Differential Subsidy scheme. These subsidies are provided to freighters of petrol, so that the price differential between metropolitan and remote area residents is reduced. However, in the past few years the freight subsidies have been substantially reduced, at considerable additional expense to remote area residents, particularly Aborigines.

While considerable amounts of fuel taxation are paid by people living in remote areas, additional costs in terms of higher fuel consumption and vehicle damage are caused by the poor state of roads in many parts of Australia. Road funding arrangements, particularly the Commonwealth grants to the States and Territories and the local government funding mechanisms, severely disadvantage remote Aboriginal communities (Crough and Pritchard 1990). Were the funding of road construction and maintenance in Aboriginal communities based on fuel taxation payments by Aboriginal people, there would be a significant increase in the funding available for roads in Aboriginal communities. Apart from the cost savings on fuel and vehicle damage, sealing roads in many Aboriginal communities would make a direct contribution to improving environmental health conditions in these communities (National Aboriginal Health Strategy Working Party 1989).

Zonal Rebates

An important mechanism of the Commonwealth Government to compensate remote Australians for the additional costs and hardships is the two-tiered system of zonal rebates on income tax. Zone A is the "more remote" of the two zones, incorporating Australia's northern and northwestern coastlines and the most of the continental interior. Zone B forms a band around Zone A, incorporating central Queensland,

northwestern New South Wales, northern South Australia, the Nullabor and the southern half of Western Australia, excluding the Perth region.

The rebates for taxpayers resident in the two zones were: Zone A - \$270 flat plus 50 per cent of a 'base amount' calculated from the costs of dependents; Zone B - \$45 flat plus 50 per cent of the 'base amount'. In addition to the 'A' and 'B' zones is a 'special area' criterion. Taxpayers residing more than 250 kilometres from a population centre of more than 2,500 people qualify for a special area rebate in addition to the zone rebates. The rates of special area rebate were: Special area in Zone A - \$938 fixed plus 50 per cent of a 'base amount'; Special area in Zone B - \$938 fixed plus 20 per cent of a 'base amount'.

Estimates prepared by the Commonwealth Treasury suggest that zone rebates cost \$118 million in foregone revenue in 1987-88.

The relative remoteness of the Aboriginal population would suggest that the zone rebate system is an aspect of the tax system which favours Aboriginal people. However, as with other tax expenditures, the zonal rebate system is of benefit only to those actually paying income taxation. Since the extent of poverty in the Aboriginal population means that many Aborigines do not have incomes much above the tax-free threshold for personal income tax, Aborigines receive little benefit from the system. Moreover, although most social security benefits include a remote area allowance component, these are much smaller than income tax zone rebates and social security remote area allowances are reduced dollar for dollar with the receipt of zonal rebates. In addition, the zonal rebate system does not compensate Aboriginal people in remote areas who pay large amounts of indirect, particularly fuel, taxation.

The Poverty of Aboriginal People and Taxation

The unique position held by Aborigines in Australia's history has resulted in them becoming, as a group, the poorest sector of Australian society. The data from the 1986 population census indicate that the incomes of Australia's 227,645 Aboriginal people were considerably below the incomes of other non-Aboriginal Australians, and that the gap

between Aboriginal and non-Aboriginal incomes changed little in the ten years to 1986. Treadgold revealed (Table 1) that over a period of ten years "the real median incomes of Aborigines declined, and there was only a negligible increase in real mean income" (Treadgold 1988:607).

**Table 1: Aboriginal Median and Mean Real Incomes
1976 to 1986 (1980-81 dollars)**

Year	Males	Females	Persons
Median Incomes:			
1976	7,013	2,790	4,359
1981	4,775	3,053	3,668
1986	5,103	3,824	4,179
Mean Incomes:			
1976	7,093	3,563	5,327
1981	5,756	3,559	4,634
1986	6,377	4,467	5,391

Source: Treadgold (1988), Tables 2 & 4.

While Aborigines in the ten years to 1986 experienced a very minor improvement in their incomes relative to non-Aborigines, their absolute real incomes fell. As Treadgold states:

Over a ten year period of seemingly serious political commitment to improve the economic lot of Aborigines through an array of government policies and programmes the totality of achievement was of negligible proportions (Treadgold 1988:597).

The extent of poverty amongst Aboriginal people implies that Aboriginal welfare is highly dependent on the taxation system facilitating a redistribution of income. Indeed, until recently it has been generally accepted that an important role of the income taxation system was to establish mechanisms whereby this transfer achieves certain specified **equitable** outcomes. The concept of equity has generally had two aspects: that taxpayers at the same income level should be liable for about the same amount of tax (horizontal equity); and that taxpayers with higher incomes should contribute proportionately greater amounts of tax to fund the provision of government services (vertical equity).

The vertical equity of the tax system was investigated in 1984 as part of the Australian Bureau of Statistics Household Expenditure Survey (Australian Bureau of Statistics 1984). A similar study on the basis of information collected in the 1989 survey has yet to be completed. The study attempted to measure the effects of both taxation and government expenditure on Australia's income distribution. These statistics describe the situation that applied before many of the changes to the taxation and social security systems were implemented by the Hawke Government. The study does not take into account all the mechanisms by which individuals can reduce their taxable income and their taxation liabilities.

The ABS investigation found that government expenditures and taxes together made a significant contribution towards lowering income inequality, but that most of this impact was the result of government expenditures. The Australian taxation system tended not to have a direct redistributive role, but enabled governments to make expenditures which had redistributive impacts. The extent to which this conclusion remains valid, in light of recent changes to taxation in Australia, is not known.

The extent to which the taxation system provides indirect rather than direct redistributions is demonstrated in Table 2. While the personal income taxation system was generally progressive, this progressiveness was weakened substantially by the regressive effects of indirect taxes. For instance, the poorest 10 per cent of households paid \$12.37 per week in total taxation (direct plus indirect) while their private earnings were only \$11.83 per week. On average, all privately earned income of the poorest 10 per cent of the community went back to the government in taxation. Redistribution of income to this group primarily occurred through the payment of government benefits.

The Personal Income Taxation System

Since the onset of inflationary pressures in Australia in the early-1970s there have been frequent changes to the marginal taxation rates for personal income tax payments, often referred to as "tax cuts". The

Table 2: Equity Impact of Personal and Indirect Taxes for the Poorest and Richest Household. Deciles 1984

	Lowest 10 percent	Highest 10 percent	All Households
Private Income (\$pw)	11.8	1136.9	401.4
Private Income plus Govt Benefits (\$pw)	137.5	1261.5	536.4
Personal Tax (\$pw)	0.3	331.1	91.6
Indirect Tax (\$pw)	12.1	72.3	37.7
Total Tax (\$pw)	12.4	403.4	129.3
Total Tax as a Per Cent of Private Income	105	35	32
Total Tax as a Perent of Private Income plus Govt Benefits	9	32	24

Source: Australian Bureau of Statistics 6537.0

effects of taxpayers being pushed into higher tax brackets is usually addressed as an issue affecting medium to high income earners. It is frequently overlooked that low income earners are also affected by this process. In 1983 the income threshold under which no income tax was payable (the 'tax-free' threshold) was \$4,462. If this had been indexed for inflation annually, by September 1988 the tax free threshold would have been \$6,664. The tax free threshold was only \$5,100. The wage-taxation package introduced in April 1989 did not alter the threshold, although the Government decided to raise the level to \$5,400 in January 1991.

Although all taxpayers benefit from raising the tax-free threshold the relative benefit is greater for low income than for high income earners. This is because the tax-free threshold comprises a relatively larger share of their income. According to the Australian Institute for Family Studies (1989a), to raise the threshold by \$500 per annum would provide a cut in taxation of \$120 for every taxpayer with an income in excess of the new threshold, and would cost approximately \$854 million.

The initial marginal tax rate on income earned above the threshold is also important for low income earners. Again, very low income earners have not received the greatest benefit from changes to tax rates in the late 1980s. In 1983 the initial marginal tax rate on income earned

above the threshold was 30.7 per cent, whereas the top marginal tax rate was 60 per cent. At the beginning of 1990 the lowest marginal tax rate had been lowered to 21 per cent (down 9.7 percentage points) whereas the top marginal rate had been lowered to 47 per cent (down thirteen percentage points).

The extent to which Aboriginal people are affected by the level of the tax-free threshold and the initial marginal tax rate can be seen in Table 3. This table has been compiled using data from the population census and the annual publication of taxation statistics by the Australian Taxation Office (ATO), a technique first used by Fisk (1985:32). Fisk's estimate was that Australian Aborigines paid about \$10 million in direct income taxation in 1981.

The 1985-86 taxation statistics, using this same methodology, provides an estimate of \$76 million as personal income taxation paid by Aborigines. The reasons for the large discrepancy between Fisk's and the present estimates in a period of just five years is unknown, although the poor quality of the 1981 census data (see Treadgold 1988) could be a major reason.

There are also a number of questions relating to how Aborigines are affected by the interaction of the personal income tax and social security systems. Poverty traps (where the tax and social security systems conflict with each other, creating very high rates of income withdrawal for low income earners) cause great hardship to low income earners and reinforce poverty. The implementation of many of the recommendations of the (Cass) Social Security Review has contributed to removing the most glaring of poverty traps. However, poverty traps can still emerge while the tax and social security systems are administered separately.

Table 3 Estimated Income Tax Payments by Aborigines, 1985-86

Taxable Income Band (\$)	Number of Aborigines over 15	Approx. Tax Payable at Mid-point of Band (\$)	Total Aboriginal Income Taxation Paid (\$000)
under 4,000	77,364	zero	zero
4,000-10,000	25,461	707	17,991
10,000-17,000	12,682	2,284	28,963
17,000-27,000	3,294	5,607	18,468
27,000-35,000	481	9,952	4,787
over 35,000	337	16,543	5,575
TOTAL	119 619		75,783

Note: Taxable income is annual income less \$5,000, the approximate tax free threshold.
 Source: 1986 Census Microfiche CA0051; Australian Taxation Office (1988)

This is borne out in present arrangements for Aborigines employed under the Community Development Employment Program (CDEP) (essentially work-for-the-dole schemes in remote areas). There are certain advantages for Aborigines employed in CDEP schemes to be incorporated into the income taxation rather than the social security system, as the marginal rate of tax payable on additional earnings is less than the withdrawal rate for social security benefits. However, the Australian Taxation Office has had little involvement in remote communities, so that supplementary income earned by remote Aborigines (through the sale of arts and crafts, for instance) is probably not declared very often. Furthermore, the Department of Social Security has generally not required recipients to disclose their tax file numbers to the extent that it has for urban social security recipients. In most cases, the CDEP co-ordinator handles CDEP payments and PAYE taxation arrangements for CDEP participants.

There are also major deficiencies in the delivery of services to remote communities by the Department of Social Security, although the funding of the Community Agents Scheme has assisted many communities in their dealings with the Department. A recent report noted that, despite the improvements in service delivery, "remote Aboriginal and Torres Strait Islander communities receive a significantly lower level of income support than they may be entitled to." (House of Representatives Standing Committee on Community Affairs 1989:46)

The difficulties in administering effective and equitable social security and taxation systems in remote communities are compounded by the involvement of many remote Aborigines in arts and crafts activities. In the past, very little has been known about the size and characteristics of the Aboriginal arts and crafts industry, providing little room to respond to claims that Aboriginal artists are receiving large incomes without paying tax.

The report from the Committee of Review into Aboriginal Arts and Crafts in 1989 transformed this debate. The Committee argued that although few Aboriginal art and craft producers declare income earned through arts and craft sales, this is of little consequence to government revenue as the majority of producers have incomes below the tax-free threshold. Some 75 per cent of art and craft producers gross less than \$1,000 per annum from their work, and the large majority use (art) sales to supplement social security benefits. Less than 5 per cent of art and craft producers are solely reliant on sales for their income (Altman 1989:38).

However, the limited involvement of the Australian Taxation Office in remote Aboriginal communities also means that tax deductions such as the cost of materials cannot be claimed against income. This may result in a relatively higher taxation burden in cases where producers have other income. In relation to income tax and Aboriginal arts and crafts the Committee of Review concludes:

"The review committee's overall feeling is that the issue of income taxing of Aboriginal artists falls squarely into the 'too hard basket'... While there is always a possibility that an ATO audit will target Aboriginal arts and craft producers, in all probability the cost of such an audit would greatly exceed the revenue that may be raised from the small number of Aboriginal producers who currently have income tax liabilities" (Altman 1989:186).

The Equity of Tax Expenditures

It has been noted that the taxation system is important not only as a means of making direct redistributions of income, but as a means of funding government expenditures which themselves have redistributive impacts. To this extent, Aborigines are disadvantaged from a tax system in which more affluent sectors of society are provided with opportunities to reduce their taxation liabilities. One of the major mechanisms by which this can occur is through the use of tax expenditures.

Tax expenditures are provisions in the taxation system which treat certain activities "differently from a chosen benchmark structure" (Commonwealth Treasury 1989). The size of tax expenditures increased throughout the 1980s, until being pared back in 1989-90. In 1989-90 \$9.4 billion was foregone in taxation revenue by the Commonwealth Government through (positive) tax expenditures (Table 4). There is also a multiplicity of tax expenditures involving State and Territory governments, but these are rarely quantified.

There is considerable debate among economists as to the relative merits of tax expenditures as against direct outlays. Tax expenditures provide

Table 4: Aggregate Tax Expenditures by Functional Category, 1983-84 to 1989-90

Revenue Cost (\$ million)	1983-84	1988-89	1989-90
Defence	24	53	30
Education	76	41	n.a.
Health	622	246	29
Social Security	4,287	5,888	5,669
Housing and Community Amenities	404	153	12
Culture and Recreation	49	79	42
Industry Assistance	1,167	3,641	3,453
Labour and Employment	24	31	37
Other Economic Services	5	5	1
Other	378	691	148
Total	7,236	10,808	9,421

Note: does not include private home ownership tax expenditure.

Source: Commonwealth Treasury (1990).

opportunities for taxpayers with (otherwise) high taxation liabilities to substantially reduce these liabilities. These equity implications are not taken into full account by policy-makers because of the method by which they are dealt with in the Commonwealth Government's budget process. ACOSS has recommended in relation to tax expenditures that:

"In some circumstances it may be justifiable to provide advantages for one type of activity by contrast with others. In general, however, the advantages should be provided through open grants rather than 'hidden' tax advantages. A system of grants is usually more readily controllable by Government and accountable to the public, and more capable of accurate targeting" (ACOSS, 1987:3).

Taxpayers with high taxation liabilities receive most of the benefit from tax expenditures because many of the tax expenditures are open-ended, and are generally targeted to companies or medium to high income earners. By definition, tax expenditures are only able to be exploited by companies or individuals actually paying tax, and those liable for greater amounts of tax can make greater use of tax expenditures.

The largest of the 'tax expenditures' to individuals (which is not recorded in the statistics prepared by the Commonwealth Treasury), is that on the family home. This tax expenditure operates so that imputed rent is tax-free:

"If owner-occupants' homes were rented out, the net income obtained ... would be taxed. To put it another way, because an investment in owner-occupied housing produces a particular type of in-kind income, that income is untaxed." (Gruen 1988:4).

This particular form of tax expenditure was estimated to have reduced the cost of owner-occupied housing by \$3.24 billion in 1984-85 (Gruen 1988:4). It appears that these tax expenditures have tended to rise faster than other forms of direct Commonwealth financial assistance to housing, although if State Government expenditures are also included the gap between the two rates of growth is lower.

The equity implications of these tax expenditures occur at two levels. First, home owners are favoured against renters. Second, the higher the imputed value of rent, the larger the tax expenditure. The non-taxation

of capital gains on the family home magnifies the tax advantage received by home owner-occupiers. Because of very low rates of Aboriginal owner-occupancy in the housing market, Aborigines receive few benefits from this array of tax expenditures. The importance of housing-related taxation issues can be gauged in that Shirley McPherson, representing Aborigines and Torres Strait Islanders at the 1985 National Taxation Summit, spent a considerable amount of her presentation arguing that the housing implications of the Government's tax reform package be closely examined (Australian Government 1985).

Naturally, the equity of tax expenditures must be seen in context. Tax expenditures are only one form of redistribution. They are complemented by direct outlays, notably those from the Department of Social Security. It could be argued that whereas Aborigines (and other low income earners) usually cannot take advantage of most tax expenditures they have access to direct government outlays. There is undoubtedly a great deal of truth in this. Yet there are powerful myths built on Aboriginal receipt of welfare entitlements, and these are rarely put in the context of the entitlements other members of society receive through tax expenditures. For example, critics of the Aboriginal receipt of welfare monies rarely question the enormous taxation benefits accruing to upper and middle income earners as a result of deductions for personal superannuation. It is highly likely that on a per capita basis the value of tax expenditures to middle and higher income earners are considerably in excess of the per capita payments to Aborigines and other low income earners by governments.

The Royal Commission into Aboriginal Deaths in Custody raised a very important point with respect to the degree of 'welfare dependence' of Aboriginal people and the role of the taxation system in funding public services.

It is important to recognise that a high level of dependence on publicly funded services is not something peculiar to Aboriginal people. We are all dependent on numerous public services which some of us subsidize indirectly through taxation. Public transport, roads, airports, sewerage, garbage collection, water, electricity, telecommunications, health care facilities, police and the government authorities which regulate our markets are just a few of the services without which we could not enjoy the

life style we do. The fact that in many places Aboriginal communities provide these services for themselves through more direct government funding does not make them more dependent than the majority of the population who live in cities and towns. (*National Report* Volume 4 1991:368)

The overall system of business taxation in Australia also leaves much to be desired in terms of equity and efficiency. The claim that Australia is a high-tax country is often heard from the business community. Figures compiled by ACOSS (1987) reveal that the Australian business sector contributes relatively low amounts of taxation, both as a percentage of Gross Domestic Product and as a percentage of total tax revenue.

Over recent years the taxation of companies in Australia has been dramatically reshaped by the introduction of measures intended to make the taxation system more efficient and equitable. Through improvements such as fringe benefits tax, capital gains taxation and the (impending) tax on gold mining, the taxation system has moved increasingly towards being based on the taxation of all forms of income (improved horizontal equity). In addition, the Australian Taxation Office has significantly improved its administrative strategies for dealing with large companies, and detailed and systematic auditing of such companies is now an integral part of the ATO's approach.

However, under the present business tax regime a considerable number of opportunities for tax minimisation still remain. The major openings for tax minimisation are through tax expenditures and the deductibility of the costs associated with corporate financial transactions, particularly debt servicing costs and capital losses.

It should be noted that there is a further form of 'tax expenditure', known as the dividend imputation scheme, which is not included in Table 4 statistics. This scheme has undoubtedly directly benefited higher income people, and enabled these people to substantially reduce their tax payments through the ownership of shares. In 1988-89 the total value of dividends received by individual Australian taxpayers was \$3,271 million, of which \$2,938 million was not subject to any further taxation. According to the Taxation Statistics, 109,497 taxpayers, all with taxable incomes in excess of \$50,000, received \$2,413 million in

dividend income which was not subject to further taxation. That is, about 1.4 per cent of all Australian taxpayers in 1988-89 received an enormous financial benefit as a result of the Commonwealth Government's introduction of the dividend imputation scheme.

Conclusion

Although it has generally been assumed that many Aboriginal people have few interactions with the Australian taxation system because of their low incomes, the evidence suggests that there is a considerable range of such interactions. A large number of Aboriginal people are too poor to pay very much in income taxation, but other forms of taxation (such as fuel taxes, sales taxes and mining withholding taxation) do affect the living standards of many Aboriginal people.

Aboriginal people have a vital interest in the performance of the taxation system, both because of the direct impact of this system on them as individuals, and more broadly because Australia's taxation revenue base provides the resources for government spending on Aboriginal affairs programs. The cuts in income tax rates in recent years have undoubtedly benefited many Australians, but the revenue effects have put considerable pressure on government spending.

In recent years there has been increasing speculation that a consumption tax will be introduced. The Liberal and National Parties have announced that if they are elected at the next election, such a tax will be introduced, and income tax rates will correspondingly be reduced. This will, in all likelihood, have a significant impact on low income people, although it is difficult to be precise because sales taxation is already paid by most of these people.

In addition, because Aboriginal people tend not to live in the larger capital cities and are often subject to high prices because of higher transportation costs, proposed changes to fuel taxation and registration charges (as recommended by the Inter-State Commission) will have a major impact on the cost of goods and services in remote parts of Australia.

An important part of the taxation system is tax expenditures. These generally benefit higher income individuals and companies, and are normally not accessed by lower income Australians. Tax expenditures associated with home ownership, superannuation and share ownership cost billions of dollars in foregone taxation revenue each year, and are important in facilitating the accumulation of wealth by Australian people fortunate enough to take advantage of the concessions. While levels of spending on Aboriginal people and other low income Australians are subject to detailed scrutiny, tax expenditures are generally not subject to a similar degree of scrutiny.

Mechanisms are available within the Australian taxation system which could be of great benefit to Aboriginal people. In particular, mineral royalty equivalent payments by the Commonwealth Government have been of considerable benefit to Aboriginal people in the Northern Territory, but are not available to Aboriginal people in the other States. A national compensation fund, based on mineral royalty equivalents, or on a certain proportion of company taxation, could be established to facilitate Aboriginal people regaining access to their land.

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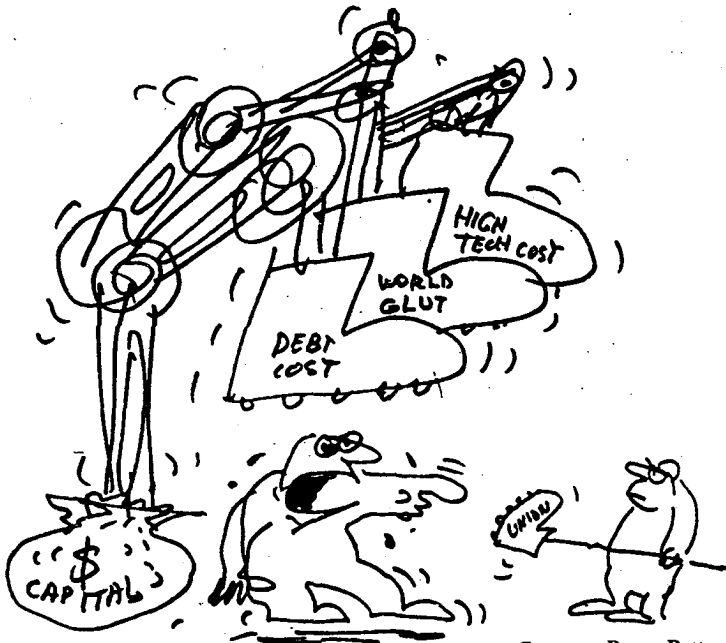
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