



INDEPENDENT EDUCATION
UNION OF AUSTRALIA

**SUBMISSION TO THE SENATE
INQUIRY ON THE GST**

February, 1999

1. INTRODUCTION

- 1.1 The Independent Education Union of Australia (IEU) welcomes the opportunity provided by the Senate in setting up this inquiry, to put our views on the likely impact of a Goods and Services Tax on the provision of education services in Australia, particularly as they relate to the non-government sector.
- 1.2 The IEU is the federally registered organisation which represents the industrial and professional interests of teachers and support staff in all non-government education institutions across Australia. The union has a current membership of approximately 44,000 members in early childhood settings, primary and secondary schools, English language colleges and post compulsory private training institutions.
- 1.3 The union has a strong interest in government funding policy, and the related tax resource base for such funding and its impact on the operations of non-government schools. Such funding fundamentally affects the education of students and the professional and industrial lives of education workers in non-government schools.

2. THE FUNDING BASE

- 2.1 Over the past 20 years, the IEU (or its predecessor federal umbrella organisation, the Independent Teachers Federation of Australia) has made submissions to a substantial number of government reviews and committees of enquiry regarding education and funding policy and programs.
- 2.2 The IEU believes that it is incumbent on government to ensure the existence of a strong enough revenue base, which can provide for high quality public infrastructure such as schools, hospitals, law courts, roads etc. Fundamental to this is a modern, efficient, equitable and fair taxation system which is transparent and provides for maximum compliance.

- 2.3 The IEU believes that for at least ten years of schooling, education is a compulsory endeavor and a fundamental entitlement for all young Australians. But it is now also widely recognised that the post compulsory years of education are vitally important and that education is a life long pursuit. High quality education provides the foundations for a young person's life chances and for their career opportunities and contributes to the strength and rigour of the nation's public and private institutions. A strong well resourced and publicly funded education system incorporating both the government and non-government systems is fundamental and necessary social infrastructure.
- 2.4 The IEU believes that the Commonwealth has a central leadership role and responsibility in planning and ensuring that both government and non-government school authorities have the capacity and the resources to provide educational resources of the highest quality, and that rigorous accountability and reporting mechanisms are in place.
- 2.5 It is from this standpoint that the IEU supports the need for tax reform to strengthen the revenue base particularly given the increasing gap between educational needs and government revenue prioritised to meet these needs.

3. GST LEGISLATION

- 3.1 Prior to the 1998 federal election, the IEU made clear its opposition to the proposed GST as the basis for tax reform for a number of reasons:
- that it was an unjust and regressive tax which placed an unfair tax burden on low income earners, particularly given its application to food and other basic essentials. This inequity is even more stark in light of the proposed distribution of the tax cuts which advantages those in the higher salary brackets;
 - that it would increase the cost of education in terms of a range of items such as books, stationery, excursions, student transport, uniforms, special tuition etc;

- that it would increase the costs to teachers and support staff on items such as books, stationery, internet services, union fees, membership of professional associations, professional development etc;
- that it would be an administrative nightmare for schools in relation to compliance requirements, and would significantly increase costs for schools and systems;
- that the changed Commonwealth State & Territory arrangements in relation to the receipt of the GST by State and Territories may impact detrimentally upon the stability and predictability of federal funding arrangements for non-government schools in the future. Further, it is now strongly contested by a significant number of expert economists that the GST, at the proposed rate of 10%, will not provide a sufficient revenue base to meet the increasing needs of a modern education system in the 21st century. The implications in this shift in Commonwealth/State & Territory arrangements on education has received little, if any comment, in the public debate since the policy's announcement.

These issues remain unaddressed and require the diligent attention of the Senate.

- 3.2 The IEU maintains the view that the GST is a regressive and inequitable tax and that as a reform, it leaves untouched significant non compliance and tax avoidance on the part of many in the community. The union believes that the legislation should be rejected and that such a vote by the Senate would be consistent with the outcome of the October 1998 federal election in which a majority of the electorate voted against the Coalition in the House of Representatives, and the Democrats won the balance of power in the Senate.
- 3.3 However, the union made submissions to the Vos Committee and has argued for, and welcomes, this Senate enquiry process to allow for an open, transparent and fair process of review and consultation on the proposed GST legislation. It is in the interests of our members to ensure that the detail of the legislation addresses the practical realities of participating in the education sector (whether as students, teachers, support staff, parents, employers, unions

etc.) and holds the government to its promise that the GST legislation will provide genuine reform and create greater equity and that education will be GST free.

3.4 Consistent with the views outlined above and argued by the union prior to the election, the IEU strongly supports the following:

3.4.1 the policy position of the Australian Democrats and Senator Harradine that food should be GST free. To some degree this will alleviate the tax burden on low income earners, who will also receive the least advantage from the proposed tax cuts. The estimated losses to revenue as a result of such an exclusion should be retrieved through appropriate closure of loopholes in tax legislation which allow tax minimisation by those with resources which allow them to access expert tax advice (few PAYE earners have such advantage).

3.4.2 that books, periodicals and newspapers be GST free. Given the Government's commitment to the electorate prior to the election that education will be GST free, it is unconscionable that such a basic educational resource should attract a GST. Books represent a major item of expenditure for students and their parents, teachers and schools, and will represent a serious impost on the increasingly high costs of education, and will act as a disincentive to the notion of life long learning.

3.4.3 The IEU strongly supports the submission by the National Education Forum (NEF), a coalition of national professional associations and community organisations, all of which are non profit organisations and a substantial number of which function on a voluntary basis with office bearers working on an honorary basis.

Paragraph 2.2 of their submission argues:

“The submission points out the implications for educational professional associations (currently categorised as non profit organisations) in

moving to a broad based goods and services tax system (GST). It argues a case for 'zero-rating' or exemption of GST on its activities and transactions in order for professional associations to maintain viability and continue to offer high quality professional development for teachers and teaching resources at a relatively low cost".

- 3.4.4. Non profit organisations such as subject and educational professional associations, parent and student organisations and education unions contribute to the strength and diversity of the Australian education sector and as part of their mission, are committed to supporting those involved in the teaching and learning process. The IEU strongly believes that such non profit organisations in the education sector should be GST free.

4. GST AND ITS IMPLICATIONS FOR EDUCATION

- 4.1 The IEU acknowledges that many of the concerns raised by the IEU and other key stakeholders in the education community in submissions to the Vos Committee have been addressed in the draft legislation. Nevertheless, the IEU believes there are a number of issues which remain confused and require close scrutiny and clarification by the Senate enquiry.
- 4.2 Of particular concern is the contradiction between the government's promise that education would be GST free and the reality of increased costs which will confront many parents, students, teachers and non profit educational organisations as participants and consumers within the sector. The union believes that the legislation should be amended to properly reflect the government's promise to the electorate that education will be GST free.

Areas for particular focus are those related to uniform costs, books and learning materials, and how education and related costs are defined.

4.3 *Is Education GST free?*

- 4.3.1 The IEU submission to the Vos Committee particularly noted the need for the legislation to clearly define which aspects of education are GST

free and which are ancillary to education and would therefore attract the GST. Prior to the election in 1998, there was considerable confusion within the education community as a result of a disparity in statements made by the Prime Minister and those from the Minister for Schools, Senator Ellison about the application of the GST on subject levies.

- 4.3.2 Senator Ellison indicated that *“if the subjects or course chosen contribute towards assessment for graduation, then materials and fees will be GST free”*.
- 4.3.3 The Prime Minister’s letter to Mr Stuart Hamilton of the Forum of Education Peak Organisations provided a broader interpretation: *“tuition includes all activities undertaken within the various educational and training as part of providing tuition. Thus research and scholarship activities of universities and school provided services which contribute to the achievement of the National Goals of Schooling are all GST free”*.
- 4.3.4 In responding to questions from the union, Senator Ellison indicated that music tuition which is a non assessed part of the curriculum would attract a GST, including any instrument hire. This statement is not easily congruent with that made by the Prime Minister which recognises that a broad range of activities at educational institutions contribute to the educational value gained by their students and to their whole development as educated citizens in the community.
- 4.3.5 The draft legislation includes no definition in the Dictionary of “education”, and nor is there any reference to the current National Goals of Schooling. (It is worth noting that the National Goals of Schooling are currently being redrafted and are the subject of national consultation).
- 4.3.6 It is the view of the union that the holistic nature of education which is more evident in the Prime Minister’s statement is not properly reflected in the draft legislation, and the Senate should seek to amend the legislation to achieve this outcome.

- 4.3.7 A comprehensive definition of “education” which reflects the government’s stated commitment to education and training and lifelong learning and the intrinsic value which all education experiences have for the individual and society should be included in the legislation.
- 4.3.8 Within this context, the IEU believes that private tuition should be eligible for GST free status. There are a variety of practical arrangements in place in schools which mean that the GST will apply in some cases and not others.
- 4.3.9 For example, many schools both government and non government, provide tuition (eg in music) to students, either individually or in groups by a permanent member of staff and that tuition is included in the school fee, and will most likely escape GST. Other schools facilitate private tuition by tutors whom the students pay directly. GST will apply. Some schools facilitate private tuition, parents pay the school and the school then pays the tutor, less administration and room hire charges. GST may or may not be charged. Paragraph 5.59 in the Explanatory Memorandum states that *“if an education course supplier engages a private tutor to deliver services, it would pay a GST inclusive price to the tutor but would not pass on the GST cost to the student”*. It is very unlikely that such charges would not be passed on by the school. There will be a variety of other models in place in schools, and while it may well be that the GST is applicable in each, compliance issues are evident, and it is likely that some parents will pay GST and some will not. The legislation should not give rise to such inequity.
- 4.3.10 Consistent with the above, the IEU believes that the range of educational experiences now offered by schools as part of their mission “to educate the whole student” should be GST free. Schools are increasingly innovative in their aim to engage students in different contexts and settings to try to make learning more relevant and interesting. The union believes that it is unreasonable to expect a school to interpret subdivision 38-90 of the legislation with regard to excursions or field trips and to

determine whether “it is directly related to the curriculum of an education course” (my underlining) and consequently GST free. From the school’s point of view, a professional judgement made by the teacher and endorsed by the principal that such an excursion or field trip is educationally valid and worthwhile should give it GST free status. Similarly, it is unreasonable that some activities involve students hiring equipment (and incurring a GST) and another involves using it free of charge. Issues of resourcing and equity discrimination arise in such cases.

4.3.11 The IEU therefore believes that the legislation should be amended to ensure that education, broadly defined, should be GST free as promised by the government.

4.4 Education Support Materials

4.4.1 The legislation gives GST free status to "course materials" which are defined in the Dictionary as things "*necessarily consumed or transformed by students as part of a course*". The Explanatory Memorandum provides as examples, photocopied educational materials, art supplies and ingredients used in a cooking class. The Union believes that the difference between course materials and learning materials is quite spurious. All support materials to the learning process should be GST free.

4.4.2 Consistent with the point argued in 4.3.7, the IEU believes that the legislation does not deliver the government's promise of GST free education if it does not allow course materials, learning support materials, text books, research materials etc to have unequivocal GST free eligibility. Such items are fundamental to the processes of teaching and learning ie. to education.

4.4.3 According to paragraph 5.57 of the Explanatory Memorandum the current draft legislation allows goods or property that are provided for students to use while undertaking a course (such as textbooks,

computers, sports equipment, school buildings) to be GST free "*unless there is a hire charge separate from the course fee*" or they are sold or leased to the student.

The IEU believes that in this area again, the practical arrangements in schools and systems in relation to the use and provision of education support materials will result in confusion in trying to interpret the legislation and give rise to compliance problems in administering GST liability.

4.4.4 As an example, the following kinds of practices occur in schools.

- students buy all their own text books, course and learning materials from retail stores or the school P & F shop, and will therefore pay a GST
- students have access to class sets of text books provided by the school. Often such sets have been built up over the years via a book levy process. No GST will apply.
- students pay a subject levy used for a range of purposes - to replenish book sets; to buy work books which require exercises to be completed as part of the curriculum; to cover photocopying costs incurred in the production of research notes, study sheets, class exercises, etc. Payment of the GST is ambiguous.
- the subject fee may also cover the purchase of specialist equipment for particular areas of study such as art, drama, outdoor education, sport etc. The fee paid in relation to these curriculum areas may also represent a hiring fee or a maintenance fee for the quite expensive capital items purchased by the school but will not be described as such. Some proportion of the fee is used for materials which would be consumed or transformed as part of a course and therefore GST free, others would not. Often these fees

are included in the overall school fees. Confusion and ambiguity about the application of the GST exists.

- as technology becomes more ubiquitous in schools, different arrangements have been established. Many schools have school owned computers set up in computer laboratories or a number in each classroom. P&F fundraising efforts are often responsible for their provision, and they are used by multiple classes over a number of years. In some schools, a proportion of each student's subject levy contributes to the ongoing maintenance of the hardware and upgrades in software. Other schools provide a laptop for each student, and students may or may not pay a fee for their use. Any fee may be inclusive in the overall school fee and therefore be GST free. Some schools require students to provide their own lap top and have established special arrangements with leasing companies to facilitate their lease and/or purchase. Again, there is ambiguity about the application of the GST.

4.4.5 The above illustrates there will be obvious inequities which arise in the application of the GST to education support materials with some students paying and others not for the same educational provision. Schools will have to make quite difficult judgements in trying to meet compliance requirements and it is quite likely that many schools will seek to adjust various administrative and financial practices because of the way the GST operates.

4.4.6 The Union's submission to the 1997 AIRC Living Wage Case, provided sworn evidence from both a parent and a Catholic school principal regarding the increasing costs of education. (While prepared for a different purpose and context, these statements are attached for the information of Senators). These statements make clear that parents, particularly those who are low to middle income earners, face increasing financial difficulties in meeting the costs for items which are directly related to the school education of their children - these include school

uniforms, text books and other learning materials, excursions and field trips, sporting equipment, transport etc.

- 4.4.7 The government has argued that the removal of Wholesale Sales Tax, income tax cuts and the compensation package will offset the 10% GST, and that costs for education will fall by \$240 million. However, there is currently no WST on books and it is quite unclear what the actual impact of the removal of WST will be on uniforms, stationery etc. There has been very little public debate about the profit margins on such items (22% off the wholesale price is quite different to 22% off the retail price, which includes a profit margin and on items such as clothing, can be as high as 60% or more) and therefore there is very little public confidence that the GST will not result in increased costs. The inequities about its application as spelled out above make legislative amendment by the Senate a necessity, particularly in light of the promise that education will be GST free.

4.5 ***The Impact on Education Staff***

- 4.5.1. Similar inequities and cost imposts will arise for teachers who expend substantial personal funds on text books, research materials, teaching aids, computer hardware and software etc. These costs for education staff have increased markedly in recent years as school budgets have been cut or reprioritised and they have felt compelled to supplement school resources by purchasing teaching aids and resources themselves.

Further, research has shown that the Australian teaching profession is one of the most committed to professional development and further upgrading their qualifications with post graduate study.

- 4.5.2 Section 38-85 of Subdivision 38B provides that an education course is GST free, and "education course" is defined in the Dictionary as including " professional or trade courses".

- 4.5.3 Paragraph 5.40 of the Explanatory Memorandum notes that "*Courses undertaken to gain qualifications are GST free if the qualifications are an essential prerequisite to employment in a trade, profession or occupation. To be an essential prerequisite of a profession or trade, the qualification must be imposed by or under an Australian law or an award, order, determination or industrial agreement in force under an Australian law, or by a professional or trade association that has uniform national requirements for entry into that profession or trade.*"
- 4.5.4 A very substantial number of teachers undertake further professional studies which would not meet the criteria "essential prerequisite" to employment in the profession. This has already been achieved with their initial teacher education qualification. In the course of their teaching career, many teachers undertake post graduate courses in areas such as student counselling, librarianship, vocational education and training etc or upgrade their qualifications in subjects they are required to teach by their employers. Paragraph 5.44 of the Explanatory Memorandum states that "*a distinction is to be made between courses undertaken to obtain qualifications and courses undertaken to maintain them. Courses to maintain qualifications are not GST free*". What is unclear is the status of courses undertaken by teachers who upgrade their professional teacher qualifications to meet the changing demands of teaching in Australian schools.
- 4.5.5. The IEU believes that the costs for ongoing professional development and upgrading teacher qualifications for educators should be GST free. The current draft legislation does not make this clear.

5. ADMINISTRATION OF THE GST

- 5.1 Many of the points set out above indicate the substantial burden for schools involved in the administration of GST compliance requirements. This will involve both education and support staff, including clerical administrators, who will need to make judgements about the use of certain items as described in the legislation to determine their GST liability. In the end, in order to minimise the

confusion, schools will structure fees and levies in a way which minimises GST liability. Even so, inequities will arise with some parents paying and others not, even though the circumstances are comparable.

- 5.2 While the objective in the legislation is essentially to make education GST free, the way the GST is paid and collected requires a very intensive administrative process of maintaining and filing returns and paying out and reclaiming money. At the very least, schools will need to provide inservicing for their staff, and may have to employ extra staff.
- 5.3 The burden for small schools will be particularly significant. Currently, there are approximately 484 schools with fewer than 100 students and 903 schools with fewer than 200 students in the non government sector in Australia. On average, these schools have a principal (with a teaching load), 4 to 5 teaching staff and a part time clerical staff member whose duties include being secretary to the principal, receptionist, bookkeeper, secretarial support for teaching staff and general assistant to parents and students. The administration of the GST in such a school setting with such stretched human resources will certainly have a major impact on the workload of staff and will skew the focus of work disproportionately away from those tasks which support the education of students to those which are bureaucratic and administrative. It is this kind of work re-organisation which demoralises dedicated teaching and support staff in schools.
- 5.4 The IEU strongly supports the decision which allows educational institutions to have access to the \$500 million intended to offset compliance costs, but believes this will not be sufficient to meet the needs of small business, educational institutions etc.

6. FUNDRAISING

- 6.1 Schools in both the government and non government sectors rely heavily on the support of their parent communities and in particular on the fundraising activities of their P & F committees. Such funds constitute a key element of the school budget and will be designated to the purchase of capital items such as

sporting equipment, technology, play ground facilities and improvements, repairs and maintenance etc and in student support services such as provision of breakfast, after school care, second hand uniform and book supplies. These committees and the fundraising events which they organise operate on the honorary and voluntary labour of committed parents. It is their contribution which has come to the rescue of schools as governments have abrogated their responsibility in properly funding school education.

- 6.2 It is essential for the continued viability of the organisations that the legislation facilitate, rather than place burdens on, the work they do. These are not-for-profit organisations and the limit on their fundraising before registration should be lifted above \$100,000 to alleviate the administrative burden of compliance requirements and they should be able to claim input costs for the purchase and hire of items for their fundraising activities.

7. CONCLUSION

7.1 The IEU remains opposed to the introduction of a GST and does not see such a regressive tax as the answer to taxation reform which is essential for the provision of important social services and infrastructure such as health, education, childcare, safety net services, roads, transport etc.

7.2 In light of this Senate Enquiry and the process of debate, amendment and negotiation across the parties which will ensue in the Senate, the Union urges the following in regard to education:

- that the legislation be further amended and refined to ensure that all aspects of education are GST free as promised by the government prior to the election. This is not the case at present.
- that text books, research materials, school uniforms, transport to and from school activities etc be GST free.
- that education be broadly defined to include private tuition, adult education etc

- that professional development and further post graduate study related to the education context be GST free
- that membership of non profit education professional and subject associations and unions be GST free.
- the longer term impact of the receipt of the GST by States and Territories in terms of joint Commonwealth/State & Territory responsibility for education requires further clarification.

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