



10 August 2012

Senator Gavin Marshall
Chair
Senate Education, Employment and Workplace Relations Committee
Parliament House
Canberra 2600

Dear Senator,

Social Security Amendment (Fair Incentives to Work) Bill (2012)

During yesterday's hearing of your inquiry into this Bill you invited us to send written comments in response to the Department's submission that reducing maximum income support payment rates would increase employment among sole parents affected by the legislation.

As we argued in the hearing, ACOSS along with many others including peak business and union organisations and independent experts, considers that the current rate of Newstart Allowance is so low that it acts as an impediment to active job search and participation in employment assistance and training programs. Parents cannot afford to search effectively for jobs and participate in training, and are diverted from these pursuits by the continuous financial pressures their families face. For those seeking to study fulltime to improve their future employment prospects, the lack of Pensioner Education Supplement would also be a significant constraint.

The DEEWR submission implies that a lower maximum rate of payment may act as an incentive to seek employment, though it mainly raises wider arguments about the financial and social benefits of paid employment with which we agree.

When the original Welfare to Work legislation was being considered by a Senate Committee in 2005, this argument was also put, with reference to a study that found higher rates of transition to employment among young unemployed people in Denmark in the early 1990s whose maximum rate of payment was halved at that time (the adult unemployment payment rate was replaced by a lower youth rate). As we pointed out at the time, Danish social security payments for unemployed people were set at over 50% of a typical fulltime wage (compared to less than 25% in Australia). If Australian social security payments were ever as generous as this they might significantly weaken incentives to leave income support for fulltime employment. However, this is clearly not the story with Newstart Allowance today. The Henry Report, which carefully considered the work incentive effects of its recommendations, proposed (in effect) a \$50 per week increase in the maximum single rate of allowance payments.

The DEEWR submission refers at page 4 to the official Welfare to Work evaluation, pointing out that *'during 2006-07, 38% of single principal carer parents with youngest child 8 to 15 years on NSA had left income support after 6 months compared to only 15% in the preceding year.'*

This was one of the evaluation's findings, but it cannot in our view be attributed to the lower rate of social security payment. The Welfare to Work policy also introduced a part time employment requirements for this group, invested in additional employment and training services, and imposed a tighter income test (NSA compared to PPS). The tighter income test meant that some parents 'automatically' left payments sooner because they exceeded the (lower) NSA payment cut out point.

As we argue in our submission at p12, when the evaluation controlled for the effect of the tighter income test, it found that those sole parents on NSA were 12 percentage points more likely to leave income

support in six months than was the case in the past, compared to those on PPS who were 11 percentage points more likely to leave income support. The difference is very minor and probably not significant. This strongly suggests that it was factors other than the lower rate of payment (such as activity requirements and employment supports) that led to the higher employment outcomes (as the DEEWR submission points out, over 70% of exits from income support were to employment).

The Committee also asked us to provide a copy of our recent 'Budget Waste' paper which outlined a range of measures to make room for essential increases in Government expenditure while restoring the budget to surplus. We strongly welcomed the announcement of a number of those measures in the 2012 Budget, along with the proposed Allowance Supplement which will make a modest contribution to easing financial hardship among allowance payment recipients.

I also attach a copy of our submission to the Senate Human Rights Committee on the current Bill which argues that the Bill breaches important human rights obligations. We urge the Committee to work with the Human Rights Committee to examine the human rights and social and economic policy implications of the proposed reductions in payments for sole parents.

Yours sincerely,

Cassandra Goldie
Chief Executive Officer
Australian Council of Social Service



Waste not, want not:
Making room in the Budget for essential
services

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Summary

The Government aims to restore the Federal Budget to surplus in 2012-13.

ACOSS and other advocates for people facing poverty and social disadvantage aim to repair gaping holes in our social safety net. Higher social security payments and better employment services are needed to lift unemployed people and sole parents out of poverty; a National Disability Insurance Scheme is needed so that people with disabilities can participate in community life; and people on low incomes need affordable dental care.

How can these goals be reconciled? The answer is by cutting waste and poorly targeted programs from both the expenditure and revenue sides of the Budget: *waste not, want not!*

Action can be taken in this Budget to meet the most pressing social needs while at the same time restoring the Budget to surplus. A Budget surplus in 2012-13 is not a desirable goal in itself, but it does present the opportunity for Government to focus on measures to improve fairness. Now that the economy is recovering from the Global Financial Crisis, this is the right time to start saving to meet future needs - including to protect the most vulnerable in any future economic downturn and to meet the costs of health and care services for an ageing population¹. The alternative is a future where users have to pay for essential health and community services because Governments lack the ability to do so.

This report identifies \$8 billion of poorly targeted expenditure programs and tax breaks that could be cut and redirected to other priorities. We also argue for a restructure of \$16 billion of annual tax breaks for superannuation contributions so that they go to those who need them most – low and middle income earners.

Debate about ‘middle class welfare’ often narrowly focuses on tightening income tests in our social security system. Yet these payments are already more tightly

¹ We do not know yet how much would have to be saved to restore a surplus in 2012-13. In last year’s MYEFO Statement, the Treasury *already* forecast a small surplus for 2012-13 of \$1.5B but later estimates suggest that company tax and capital gains tax revenues are lower than expected at that time. That is why the Government would need to make more savings to restore a surplus in 2012-13. However the required savings are much less than the difference between the forecast deficit for 2011-12 and 2012-13 of around \$40B in the MYEFO. Most of the estimated improvement in the Budget bottom line between those two years will come from improved economic conditions since the GFC, not from Budget cuts. Thus, the impact of further Budget savings on the economy is likely to be more modest than some predict, and would probably be more than offset by any interest rate cuts.

targeted than any other wealthy OECD country²: The 20% of households on the lowest incomes receive over 12 times the social security payments received by the top 20%³. In 2007, Australia spent just 7.4 % of GDP on social security, the seventh lowest in the OECD and below the US. We are also overall one of the sixth lowest taxing countries in the OECD.

Nor is it 'wasteful' to provide universal essential services such as health care, public schools and public transport. Taxpayers expect Governments to use their taxes to make these services available to all. The wasteful expenditures and tax breaks we target here:

- *disproportionately* benefit higher income households,
- *inflate the cost* of essential services for everyone else, and/or
- enable individuals with higher incomes and assets to avoid income tax.

Over the five years before the Global Financial Crisis in 2008, Federal Government Budgets benefited from a mining boom-induced surge of revenues from company income tax and Capital Gains Tax. Instead of investing this windfall to remove gaping holes in the social safety net such as mental health, dental care and disability services, and building up reserves to meet future needs, poorly targeted programs were expanded and income tax cuts were offered every year. As a result future Governments are faced with the rising cost of poorly targeted programs which must be met from a weakened personal income tax base, now that mining boom related tax revenues are falling away⁴.

In this Report ACOSS identifies \$8 billion per year in wasteful or poorly targeted programs:

1. Poorly targeted subsidies for 'gap fees' or other private expenditures for health and community services:

- Remove the Private Health Insurance Rebate from ancillary or 'extras' cover (\$1.1B)
- Abolish the Extended Medicare Safety Net (\$0.5B)
- Abolish the Medical Expenses Tax Offset (\$0.5B)

² There are two significant exceptions. The first is the assets test for pensions which is too generous following a major easing in 2006. A couple can have investments (other than their home) worth \$1 million and still receive a part pension. The second is the payment of Family Tax Benefit Part B to couples in order to help them care for *school-age* children at home (up to the age of 18 years).

³ Whiteford, P (2010), *The Australian tax-transfer system*, Economic Record.

⁴ Parkinson M (2012), speech to Australia-Israel Chamber of Commerce, Sydney 7 March 2012 (see www.treasury.gov.au); Swan W (2012), speech to Australian Business Economists, Sydney 28 March (see www.treasurer.gov.au).

- Abolish the Education Tax Refund (\$1B);
- Limit the tax deduction for self-education expenses (\$0.3B)

2. Poorly targeted tax concessions (tax breaks), that don't attract the same budgetary scrutiny as direct Government spending:

- Taxing 'golden handshakes' for departing employees at their marginal tax rates instead of the flat tax rates of 15% or 30% that now apply (\$0.3B);
- Not implementing the deferred 50% discount for income tax on interest income, unless this is linked with an increase in taxes on capital gains as proposed in the Henry Report (\$0.5B);
- Either removing the Senior Australians (SATO) and Mature Age Workers (MAWTO) Tax Offsets (\$1.8B), or restricting them to pensioners;
- Removing the extra Capital Gains Tax concessions for small businesses which apply in addition to the 50% discount of tax for capital gains available to individual taxpayers generally (\$1B).

3. Tax shelters that enable people on high incomes to avoid their income tax obligations:

- the tax treatment of private discretionary trusts be tightened to restrict these tax avoidance opportunities (\$1B).

More details of these proposals are provided in the attached table.

1. Poorly targeted subsidies for ‘gap fees’ or other private expenditures for health and community services

Programs such as Medicare, the Pharmaceutical Benefits System, and Child Care Benefit are examples of well-designed subsidies for essential services. They meet most of the cost of the targeted services for low and middle income households and provide significant help for those on high incomes as well. If the subsidies are ‘capped’ at the right level, they should not inflate the cost of providing these services for consumers or Governments. Direct funding of public hospitals and schools by Government is another cost effective way to provide services that the community expects to be available, as long as the right mix of resources and incentives are given to the providers (in many cases State Governments).

In response to concerns about rising costs for human services (often due to the failure to adequately index the above programs), as well as demand pressures on services such as public hospitals, Governments have over the last decade and a half introduced an extra layer of ‘top up’ subsidies to assist with ‘gap fees’ or subsidise private expenditures on these services. These include:

- the Extended Medicare Safety Net,
- The Child Care Tax Rebate,
- The Private Health Insurance Rebate.

The trouble with these subsidies for ‘gap fees’ is that they disproportionately benefit people on higher incomes and inflate the cost of the services for everyone else. They are ‘upside down welfare’.

A good example is the ‘Extended Medicare Safety Net’. It covers 80% of the ‘gap fees’ or out of pocket expenses remaining after Medicare rebates have been paid. This encourages providers such as medical specialists to raise their charges to capture this ‘gap fee’ subsidy. For every dollar spent by the Government on the extended safety net from 2003 to 2009 for services such as varicose vein treatment, cataract surgery and some IVF services, doctor’s fees rose by almost 80 cents. Also, since the highest ‘gap fees’ are usually paid by people on high incomes (who can afford to buy more expensive services), they and the service providers are the main beneficiaries. A simpler and more effective way to keep these medical costs under control would be to increase the Medicare ‘schedule fees’ so that gap fees are lower for everyone in the first place.

More broadly speaking, where the ‘gap’ between a public subsidy (such as a Medicare rebate) and the fees charged for a service is too high, the best and fairest solution is to increase the subsidy in that program, rather than set up a separate program to reduce gap payments. Similarly, the most cost effective ways

to reduce pressure on public hospital services is to promote population health programs, increase the resources in the public primary care sector and improve the efficiency of public hospital funding, not increase subsidies to private providers operating in fee-for-service arrangements.

In this Federal Budget, we propose that the following poorly targeted subsidies for health and community services be removed or cut back:

- Remove the Private Health Insurance Rebate from ancillary or ‘extras’ cover (\$1.1B)
- Abolish the Extended Medicare Safety Net (\$0.5B)
- Abolish the Medical Expenses Tax Offset (\$0.5B)
- Abolish the Education Tax Refund (\$1B);
- Limit the tax deduction for self-education expenses (\$0.3B)

More details of these proposals are provided in the table attached.

The savings could either be used to help restore the Budget to surplus or to improve essential health and community services in a fairer and more efficient way, such as a public dental scheme and by improving the quality of teaching in schools.

We also propose that the Child Care Tax Rebate, which reduces gap fees for child care after Child Care Benefit entitlements have been paid, be integrated with the Child Care Benefit into a single payment, as proposed in the Henry report. *This would not be a cost cutting measure* – the goals would be to increase support for low and middle income families with child care costs and reduce inflation in child care fees.

In future Budgets, the Government should review all public subsidies for ‘gap fees’ and other private expenditures on human services to assess how they are distributed according to household income, whether they are cost effective, whether they are simple for service users and providers to access, and to what extent they inflate the cost of the services they subsidise. The outcomes of these reviews should be published.

2. Poorly targeted tax concessions

Although tax breaks (for example, tax rebates) are not generally regarded as spending programs, they often have the same effect. A good example is the health insurance rebate which can either be claimed as a direct subsidy for a service or as a tax rebate at the end of the year. Yet because tax breaks are not

treated in the same way as direct expenditures, they often escape scrutiny in the annual Budget process. Governments often spend more time poring over million-dollar expenditure programs in search of savings while glossing over billion-dollar tax expenditures.

As a result, much of the 'waste' in the Budget is hidden away on the tax side of the ledger. A further problem with meeting social needs through tax breaks is that the bottom 25% of individuals whose incomes are too low to pay tax do not benefit at all.

Treasury keeps an annual tally of the main tax breaks and their cost to the Budget in its Tax Expenditures Statement. The latest estimates that tax expenditures will cost the Government \$112 billion in 2010-11 compared with \$356 billion of direct expenditures in that year⁵.

An example of poorly targeted tax breaks is the rapid growth over the last decade in special tax breaks for people of mature age. Although their cash incomes may be low, many of the top 20% of people over 65 years have substantial assets (including a fully-owned home) and have living standards well above average. They have benefited substantially from the introduction of tax breaks such as the Senior Australians Tax Offset and Mature Age Workers Tax Offset, and the removal of tax from most superannuation benefits. The effective tax free threshold for a couple over 65 years is now \$55,000 compared to \$32,000 for a dual earner couple under 65 due to the combination of tax rebates available. Well-advised higher income earners over 65 can 'churn' their wages and investments through self-managed superannuation accounts so that they need not pay tax above 15 cents in the dollar. Before the Global Financial Crisis, less than one quarter of individuals over 65 years paid income tax despite the substantial wealth of a significant minority within this age group.

This loss of income tax revenue from older people in Australia who can afford to pay is not sustainable. In 20 years' time, over one in five people will be aged over 65 compared with one in seven today⁶. In 30 years the number of people over 85 years of age – those with the highest health and aged care needs - will triple. If current federal health and aged care programs are maintained, their cost will rise by 4% of GDP by 2050 (equal to an increase of \$60 billion a year in today's dollars, or the whole of the current Federal Health Budget)⁷. The recent aged care package shows clearly the choice we face as a nation between strengthening tax

⁵ Treasury (2012), Tax expenditures statement 2010-11.

⁶ Aged Care Alliance (2012), Blueprint for Aged Care reform.

⁷ Swan (2010), Australia to 2050, future challenges.

revenues to share the cost of essential health and aged care services or increasing user charges.

In this Federal Budget poorly targeted or poorly designed tax concessions should be reduced or removed by:

- Taxing 'golden handshakes' for departing employees at their marginal tax rates instead of the flat tax rates of 15% or 30% that now apply (\$0.3B);
- Not implementing the deferred 50% discount for income tax on interest income, unless this is linked with an increase in taxes on capital gains as proposed in the Henry Report (\$0.5B);
- Either removing the Senior Australians (SATO) and Mature Age Workers (MAWTO) Tax Offsets (\$1.8B), or restricting them to pensioners;
- Removing the extra Capital Gains Tax concessions for small businesses which apply in addition to the 50% discount of tax for capital gains available to individual taxpayers generally (\$1B).

More details are provided in the attached table. These or similar proposals were advocated by the *Henry Report* on the tax transfer system⁸.

We also advocate a revenue-neutral restructure of the unfair and wasteful tax breaks for superannuation contributions. Superannuation tax breaks are by far the largest tax expenditure - estimated by Treasury to cost \$32 billion annually, about the same as the age pension. Of this, \$16 billion is 'spent' to subsidise contributions to superannuation funds, especially those made by employers. Those contributions are taxed at a flat rate of 15% instead of the individual's marginal tax rate. As a result it is strongly biased towards those on the top marginal tax rate, who save over 30 cents in tax for every dollar contributed to super by their employer compared to no tax saving at all for those on the lowest wages. We estimate that half the \$16 billion spent on this tax break in 2007 went to the top 12% of taxpayers⁹.

We propose that *in this Federal Budget*, tax breaks for superannuation contributions be redirected to those who need them most – low and middle income earners. This can be done by implementing a scheme along the lines of that proposed by the Henry Report where employer contributions are taxed at the individual's marginal rate before they are deposited into the fund, and this is offset in full or in part by a rebate on all contributions up to an annual cap. This *revenue-neutral* reform could double the future increase in superannuation

⁸ Australia's Future Tax System (2009), Report to the Treasurer.

⁹ ACOSS (2012) Building super on a fair foundation, ACOSS Paper 185 at http://acoss.org.au/images/uploads/Reform_of_taxation_of_super_contributions_ACOSS.pdf

benefits for individuals below average earners resulting from the 3% increase in compulsory Superannuation Guarantee contributions. The Government's proposal to increase the annual cap for contributions that attract a tax break from \$25,000 to \$50,000 for individuals over 54 should not proceed as this would mainly benefit taxpayers who are already able to secure their retirement future.

Further, *in future Budgets*, 'tax expenditures' should be grouped together with similar direct expenditures when weighing up whether Government programs are delivering value for money, as advocated by the OECD¹⁰. The Treasury should regularly publish an analysis of how all major tax concessions for individuals are distributed, according to income.

3. Income tax shelters

A basic principle of income taxation is that people should pay tax according to their ability to pay. For this reason, marginal tax rates are higher for those on higher incomes.

This principle is undermined by tax shelters that allow people on higher incomes to reduce their effective tax rates to the same as those paid by average income earners, or even less.

Many of these tax shelters have no clear justification; they are historical anomalies. A good example is the tax treatment of different investment and business structures. The tax treatment of sole traders, private trusts, and private companies is very different. Since private discretionary trusts (so called 'family trusts') benefit from the most generous tax treatment, they have increasingly been used by wealthy investors and business owners. These trusts can be used to avoid income tax by splitting income with a family member, delaying payment of Capital Gains Tax, and by passing on investment tax breaks from the trust to its beneficiaries. The income from private discretionary trusts rose from \$22 billion in 2000 to \$37 billion in 2008, a 70% increase in 8 years¹¹.

In this Federal Budget, to improve the fairness and integrity of the income tax system, ACOSS proposes that:

- the tax treatment of private discretionary trusts be tightened to restrict these tax avoidance opportunities (\$1B) – see attached table.

¹⁰ Working Party of Senior Budget Officials (2009), Best practice guidelines – off budget expenditures and tax expenditures, OECD.

¹¹ ATO 2011, *Taxation Statistics* 2008-09.

In future Budgets, the tax shelters most commonly used by individuals on high incomes should be reviewed to establish who benefits from them, whether they have a clear policy justification and whether their policy aims (if any) can better be met in other ways. This includes the unlimited deductibility of expenses associated with investments yielding capital gains (negative gearing) and the ability of taxpayers to shelter personal income in private companies.



Attachment: Budget savings proposed by ACOSS

Measure	Current policy	Detail of ACOSS proposal	Rationale	Saving (\$ million in a full year)*
(1) Poorly targeted subsidies for health and community services				
Remove <i>private health insurance rebate</i> from ancillary health cover	<p>For every dollar paid for private health cover up to an annual cap, the Government rebates policy holders 30 to 40 cents, depending on their age.</p> <p>This includes hospital cover and ancillary or 'extras' cover (such as dental, optometry, physiotherapy and chiropractic treatment)</p>	<p>The rebate should be removed from 'extras' cover and limited to hospital treatment.</p> <p>This would be in addition to recent legislation to income test the rebate (for singles earning over \$83,000 the rebate reduces to 20 per cent until at \$129,000 the rebate cuts out completely). For families, the rebate reduces once family incomes reach \$166,000.</p>	<p>The rebate is supposed to reduce public hospital costs but extras cover is not directly related to hospital care (and in any event private hospital cover has doubtful impacts on public hospital costs).</p> <p>Higher income earners are more than likely people on lower incomes to have extras cover. For example, many high income earners claim dental care from their extra cover while low income earners who can't afford insurance struggle to pay for dental care.</p>	\$1,100m (total cost of the Rebate is over \$4,000m)
Abolish the	The Extended Medicare Safety	The Extended Medicare Safety Net	The cost of the Extended	\$500m

<p><i>Extended Medicare Safety Net</i></p>	<p>Net (EMSN) subsidises out-of-pocket costs (gap fees) for out-of-hospital Medicare services including GP specialists, and pathology services. Once gap fees exceed a fixed amount per year, up to 80% of the gap is paid for by Medicare.</p> <p>This is on top of the normal Medicare refund of 80%-100% of the 'schedule fee' (fixed by the Government).</p> <p>Gap fees covered by the EMSN consist of the difference between what the service (e.g. a medical specialist) charges and the schedule fee.</p>	<p>should be abolished.</p> <p>Where gap fees for essential medical services are too high, a fairer and simpler way to reduce them would be to increase the Medicare Schedule Fee for those services.</p>	<p>Medicare Safety Net has risen 20 per cent a year recently and most rebates go to high-income earners.</p> <p>55% of EMSN spending goes to the 20% of families living in Australia's wealthiest areas. Only 4% of it goes to the 20% of Australian families living in the poorest areas¹². Half is used for obstetrics and IVF services.</p> <p>The EMSN inflates the cost of services (especially specialists) for everyone. A Government review of the scheme in 2009 found that in the case of varicose vein treatment, cataract surgery and some IVF services, for every dollar spent by Govt on the EMSN, doctor's fees rose by 78 cents between 2003 and 2009¹³.</p>	
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¹² Australian Government (2009), Extended Medicare Safety Net Review Report.

¹³ Van Gool, Kees (2009), *The Medicare Safety Net: review and response*. Economics Research and Evaluation (CHERE), University of Technology, Sydney Survey No 14.

<p>Abolish <i>Medical Expenses Tax Offset</i></p>	<p>A tax rebate of 20% for annual medical expenses (including Medicare gap fees) over \$2,000.</p>	<p>Abolish this Tax Offset.</p> <p>Where gap fees for essential medical services are too high, a fairer and simpler way to reduce them would be to increase the Medicare Schedule Fee for those services or incorporate them into Medicare or the Pharmaceutical Benefits Scheme (PBS).</p>	<p>This is an inequitable way to assist people with high medical expenses, as it is only available to taxpayers (e.g. not to retired people whose incomes are too low to pay tax).</p> <p>It can be used to fund expensive procedures such as laser eye surgery which Governments have decided should not be covered by Medicare.</p> <p>It's fairer and more cost effective to assist people with these costs through Medicare and the PBS.</p>	<p>\$500m</p>
<p>Integrate the <i>Child Care Tax Rebate</i> with the better-targeted Child Care Benefit</p>	<p>The Child Care Tax Rebate (CCTR) covers 50% of child care 'gap fees' up to \$7,500 per year. Gap fees are the difference between the Child Care Benefit (CCB) and fees charged by the service.</p>	<p>The CCTR and CCB should be integrated into a single Child Care Benefit.</p> <p>All families regardless of income would be eligible for a minimum level of the new Benefit (for example</p>	<p>The CCTR disproportionately benefits high income families because they have the highest gap fees (they receive less in the income-tested CCB and purchase more expensive care). Families generally have to earn</p>	<p>Revenue neutral (Total cost of fee subsidies is \$4,000m, of which \$1,700m is for CCTR and</p>

	<p>CCB is means tested on family incomes above \$38,000 and cuts out at \$130,000 for a family with 2 children. It provides fixed hourly subsidies for formal child care (in centres, family day care or after school care) for between 24-50 hours a week of care, if the parent is employed or in training, or the child is disadvantaged.</p> <p>Maximum hourly rates of CCB are indexed to the CPI which has grown much more slowly than increases in child care fees, so 'gap fees' are growing every year.</p> <p>Because CCB is income tested, high income families have the highest gap fees and benefit most from the CCTR. A family must usually earn at least \$ to receive the maximum amount of CCTR.</p>	<p>30% of child care costs up to an annual cap). Low and middle income families would be entitled to higher subsidies (for example up to 90% of the fees charged up to the cap).</p> <p>The new Benefit would better reflect the actual costs of providing formal child care, especially for the under three's, and would be indexed at a faster rate than the CPI.</p> <p>The Fringe Benefits Tax exemption for child care on employer premises should be abolished and the savings absorbed into the new Benefit.</p> <p>The Henry Report recommended these changes.</p> <p>NATSEM estimates if the Henry Report proposal was implemented, typical gap fees for a sole parent with a 2 year old in care costing \$164pw would fall by \$29pw if she earns \$40,000 and by \$9pw if she earns \$75,000, but would rise by</p>	<p>at least \$90,000 to receive the maximum level of CCTR¹⁴.</p> <p>The CCB mainly benefits low and middle income families but is only indexed to the CPI. Since child care fees rise well above the CPI, gap fees will also rise faster than the CPI. Thus, a growing proportion of overall child care funding will go into the CCTR and to families on higher incomes.</p> <p>Low and middle income parents are more likely than high income parents to be discouraged from paid employment if child care costs are too high. So redistributing child care subsidies to low and middle income families would boost employment participation as well as improving the system's fairness.</p> <p>This can be done by integrating</p>	<p>\$2,300m is for CCB)</p>
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¹⁴ Core Economics, Child Care in Crikey, by Joshua Gans, accessed at <http://economics.com.au/?p=1146>.

		\$25pw if she earns \$130,000.	<p>the CCTR and CCB, as proposed. The proposed system would also be simpler and child care services could deduct the subsidy from their fees.</p> <p>The FBT concession disproportionately benefits a minority of high income parents whose employers offer child care on site. Savings from charging these employers FTB for child care services could be used to improve Child Care Benefits for everyone.</p>	
Abolish the <i>Education Tax Refund</i>	<p>The Education Tax Refund (ETR) provides an annual 50% rebate off the cost of school expenses (such as information technology, books and uniforms).</p> <p>The maximum value of the rebate is \$400 p.a. for primary school students and \$800 for high school students. It is income tested on family income, so that families not</p>	Abolish the Education Tax Refund (ETR)	<p>It is not clear why Government should subsidise these expenses. Improving the quality of teaching in schools should be a higher priority, and this is a bigger concern for parents in any event, than ancillary expenses such as uniforms.</p> <p>A better response to concerns about the costs of raising children is to increase Family</p>	\$1,000m

	<p>eligible for Family Tax Benefits (e.g. a family with two children earning more than \$112,000) are excluded.</p>		<p>Tax Benefits (as the Government did for teenagers in last year's Budget) and let parents decide how the extra funds will be spent. This would remove the need for parents to keep receipts for school-related costs.</p> <p>The ETR is also likely to increase costs in cases (such as school uniforms) where there is virtually a monopoly in the provision of the item.</p>	
<p>Limit the <i>tax deduction for self-education expenses</i></p>	<p>Course fees, books, travel and other expenses for training courses related to current employment are tax deductible at the individual's marginal tax rate, beyond the first \$1,000p.a. in expenses.</p> <p>Thus there is a minimum level of expenses that can be claimed but not a maximum level.</p>	<p>Reduce the deduction for self-education expenses by one quarter by capping the allowable deductions annually.</p> <p>Alternately, claims for these expenses could be disallowed.</p>	<p>Although this is technically a valid work related deduction, it is an inequitable way to support training because it disproportionately benefits professionals who engage in regular in service training (e.g. lawyers). It does not benefit low skilled workers and jobseekers who train to improve their future career prospects, and does not benefit anyone whose income is too low to pay tax.</p>	<p>\$250m (total deductions claimed in 2008 were \$1,000m)</p>

			HECS, student allowances, and other options such as a guarantee of free education and training up to a minimum level of skills are fairer ways to support lifelong learning.	
(2) Poorly targeted tax expenditures				
Fairer and more consistent tax treatment of lump sum termination payments such as <i>'golden handshakes'</i>	<p>Eligible Termination Payments are payments made by the employer on termination of employment. Some ETPs, including <i>'golden handshakes'</i> (gratuities to departing senior employees) are taxed at flat rates of 15% (if the recipient is over 54) or 30% (if they are younger).</p> <p><i>'Golden Handshake'</i> amounts over \$140,000 are taxed at the recipient's marginal tax rate (usually 45%).</p> <p>Genuine redundancy payments (where the employee's job has</p>	<p>Employment Termination Payments such as <i>'golden handshakes'</i> in excess of the tax free limit for redundancy payments should be taxed at the recipient's <i>marginal tax rate</i> instead of a flat rate of 15% or 30%.</p> <p>There would be no change to taxation of genuine redundancy payments, superannuation or invalidity payments.</p> <p>The Henry Report advocated reform in this area.</p>	<p>The low flat tax rates for <i>'golden handshakes'</i> are unfair as they disproportionately benefit high income earners. They are also used for tax avoidance purposes.</p> <p>This measure would increase the tax payable on large golden handshakes (over \$140,000) by around \$30-\$50,000.</p>	\$300m

	<p>been abolished) also have a special tax free threshold of \$8,435 plus \$4,218 per year of service.</p>			
<p>The postponed <i>50% discount of personal tax on interest income</i> should not proceed.</p>	<p>Interest income from cash deposits and bonds is taxed at the individual's marginal tax rate.</p> <p>In response to a Henry Report proposal, the Government proposes to introduce a 50% discount of personal tax on interest income of up to \$500 per year, thus halving the marginal tax rate that would normally apply. For example, a bank balance of \$10,000 earning 5% interest would yield \$500.</p> <p>The implementation of this change has been postponed to 2014.</p> <p>The proposed 50% discount is similar to that which already applies to capital gains (from</p>	<p>The proposed 50% discount for interest income should not proceed.</p> <p>The Government should instead reconsider the original Henry Report proposal to reduce the 50% tax discount for capital gains to 40% and use the savings to introduce an equivalent 40% tax discount for interest income.</p>	<p>The idea behind the Henry Report's proposals was to equalise the tax treatment of capital gains and bank interest so that the tax system does not bias investment decisions between property and shares, and interest earning accounts and bonds.</p> <p>The original Henry Report proposal would have improved fairness by raising taxes on capital gains (over 60% of which go to the top 10% of taxpayers).</p> <p>Introducing a tax discount on interest income without increasing Capital Gains Tax would be costly. It is unlikely to have significant impact on private saving levels as the</p>	<p>\$500m (no impact in 2012-13 due to its postponement by the Govt)</p>

	sale of property and shares).		benefits for any single taxpayer are very limited.	
Restrict <i>tax rebates for seniors</i> to pensioners	<p>The <i>Senior Australians Tax Offset</i> (SATO) provides for a tax rebate of up to \$2,200 p.a. for individuals over 64 years of age with incomes (wages or investments) up to \$48,000 p.a. (couples up to \$80,000) regardless of their level of assets.</p> <p>It is paid in addition to the \$1,500 <i>Low Income Offset</i> (LITO), which has increased in recent years. A single person on up to about \$70,000 receives all or part of the LITO which effectively increases the standard \$6,000 tax free threshold to \$16,000.</p> <p>SATO is paid as an alternative to the <i>Pensioner Tax Offset</i> (PENTO), which prevents the Age Pension plus earnings under the 'pension free area' from being taxed. It was originally</p>	<p>The SATO and MAWTO should be limited to people over 65 receiving pensions – those whose income and assets both fall within the pension limits (income below \$43,000 for singles and \$66,000 for couples, assets apart from home below \$700,000 for singles and \$1,000,000 for couples).</p> <p>This would only affect the top 20% or so of people over 64 since around 80% are pensioners.</p> <p>Alternately both rebates could be abolished, in which case pensioners could still rely on the Low Income tax Offset, the Pensioner Tax Offset, and the non-taxation of superannuation benefits to reduce their income tax.</p> <p>The Henry Report advocated replacing these and other tax offsets with a higher tax free threshold for all.</p>	<p>The SATO extends to relatively well-off Seniors (within the top 20%) who have incomes or assets too high to qualify for a pension. The proposed reform would limit this tax break to those on a pension.</p> <p>Due to SATO and other tax offsets, the effective tax free threshold for Seniors is \$30,000 for singles and \$53,000 for couples, compared with \$16,000 each for younger taxpayers (due to the tax free threshold plus the LITO). This is unfair. Note that superannuation benefits are not taxable, so are not even included in these tax free thresholds.</p> <p>Even if SATO was abolished entirely, pensioners would still benefit from the LITO, the Pensioner Tax Offset (PENTO) and tax free super benefits.</p>	<p>Up to \$1,300m for SATO (if abolished completely), and up to \$500m for MAWTO</p>

	<p>targeted to independent retirees.</p> <p>The <i>Mature Age Workers Tax Offset</i> (MAWTO) is a tax offset of up to \$500 for wage earners over 54 years. It is paid to those earning up to \$63,000. It is paid in addition to the SATO to those over 64 years.</p>		<p>Given that the tax free thresholds for Seniors are already very high, and would still be high despite the proposed change to SATO, the MAWTO is not needed to encourage them to remain in paid work. There is no evidence to show that it increases employment among people of mature age. Their main barriers to workforce participation are disabilities, caring roles, skills, and discrimination rather than a lack of financial incentive.</p>	
<p>Remove additional <i>Capital Gains Tax concessions for small business</i></p>	<p>Individual taxpayers receive a discount of 50% off their marginal tax rate on capital gains (profit from sale of assets such as property and shares).</p> <p>In addition to this tax break, small business owners (with annual turnover under \$2m) get further tax breaks on the sale of active business assets (eg a property used for a business). These include:</p>	<p>These additional Capital Gains Tax concessions for small business assets should be removed, so that the normal Capital Gains Tax rules apply (i.e. in most cases only half the capital gain is taxed).</p> <p>This was proposed by the Henry Report.</p>	<p>Capital gains are already very lowly taxed in Australia – generally at half the taxpayer’s marginal tax rate. This encourages speculation in assets such as property and shares.</p> <p>The extra small business tax breaks give the most benefit to relatively wealthy small business owners – those with substantial business assets and property.</p>	<p>\$1,000m</p>

	<ul style="list-style-type: none"> - a doubling of the 50% discount (so in most cases only one quarter of gains are taxed), - a complete exemption for small business assets held for over 15 years, - a complete exemption for assets sold for retirement purposes by a business owner over 54 years of age. <p>The reason given for introducing these concessions was that small business owners used their business assets as their retirement savings, and so should receive a special tax break for this purpose.</p>		<p>As with Capital Gains Tax concessions generally, they encourage business owners to speculate in property rather than concentrating on growing their business (they discourage businesses from growing above \$2m in turnover) and increasing their ordinary profits.</p> <p>They encourage tax avoidance. Well-advised small business owners need never pay tax on their capital gains. The rules are also very complex.</p> <p>Small business owners, like everyone else, should be encouraged to save for their retirement through superannuation rather than by avoiding tax on capital gains.</p>	
Restructure <i>tax concessions for superannuation</i>	Superannuation contributions made by employers are taxed at a flat rate of 15% in the hands of the fund, up to an annual contribution limit of \$25,000 - or \$50,000 if the employee is over	A simpler and fairer annual rebate should replace all existing tax concessions for superannuation contributions. Income tax at each employee's	The present 15% flat tax on employer contributions is unfair and poorly targeted to increase retirement saving.	Revenue neutral

	<p>49 years of age.</p> <p>To improve the equity of this tax break, the Government proposes to introduce a Government contribution of 15% to offset the tax payable on contributions made for individuals below the tax free threshold (so that their super contributions are not taxed at a higher rate than their wages).</p> <p>However, the Government plans to reverse a previous Budget decision to reduce the annual cap for contributions attracting the 15% tax rate from \$50,000 to \$25,000 for people over 49 years. This would increase the concessions available to high income earners.</p>	<p>marginal rate should be deducted by employers from all contributions forwarded to the employee's superannuation fund, with the rebate paid into the employee's super account at the end of each year.</p> <p>The rebate could, for example, be paid at the rate of 100% of contributions up to a low flat annual contributions ceiling (e.g. \$350), plus 20% of additional contributions up to a higher flat annual ceiling (e.g. \$8,000). This change would be broadly revenue-neutral.</p> <p>This is similar to a proposal in the Henry Report, except that employer super contributions would not be taxed in the hands of employees as Henry proposed.</p>	<p>It has the same regressive effect as replacing the progressive income tax scale with a flat tax.</p> <p>High-earners save over 30 cents in tax per dollar contributed while those below the tax free threshold receive no tax break at all (even when the proposed Government Contribution is in place).</p> <p>The proposed rebate would shift superannuation tax breaks to those who need them most, from high to low and middle income-earners.</p> <p>This change is likely to boost retirement saving (since high income earners will save without big tax breaks) and future age pension savings (since high earners are less likely to claim pensions).</p>	<p>(The annual cost of tax breaks for super contributions is \$16 billion)</p>
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(3) Tax shelters

<p>Tighten tax treatment of <i>private discretionary trusts (so called 'family trusts')</i></p>	<p>Family trusts (also called discretionary trusts) are used to hold investment assets (e.g. property and shares) on behalf of beneficiaries or for a family business.</p> <p>The trustee can elect to allocate income from these assets to any beneficiary (usually a family member) in each year.</p> <p>The trust is not taxed on its income (unlike a company) but the beneficiaries are supposed to be taxed on the annual income they receive from the trust, at their marginal tax rates. To prevent tax avoidance, any un-allocated income is supposed to be taxed within the trust at the top marginal rate.</p>	<p>Beneficiaries should be fully taxed on any capital gains (from sale of assets) obtained by the trust. If capital gains are reinvested in the trust, the trust should be taxed on them at the top marginal rate.</p> <p>Tax concessions associated with the trust's investment assets (for example building depreciation) should not 'flow through' fully to the beneficiaries of family trusts. This would bring the tax treatment of family trusts more into line with that of other trusts ('fixed trusts') and companies.</p> <p>These measures would not extend to public trusts (eg 'unit trusts' for property investment) or trusts established to hold assets for people such as children with a disability.</p> <p>Another option to reduce tax</p>	<p>Family trusts are often used to avoid tax by wealthy investors and business owners. They are also used to protect assets from creditors and to hold them for the future benefit of family members who are not yet ready to manage their own affairs.</p> <p>The key point is that people should not obtain a tax advantage from using these trusts.</p> <p>Tax can be <i>avoided</i> (legally) by splitting income with a lower-taxed family member (though not a dependent child) or a family company that is a beneficiary of the trust; by not attributing capital gains to beneficiaries so that they can be taxed in a timely way; and by using a trust to artificially 'convert' other forms of income into capital gains.</p>	<p>\$1,000m</p>
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			Income of these trusts rose from \$22 billion in 2000 to \$37 billion in 2008, a 70% increase over 8 years.	
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