Australian Council of Social Service

10 December 2013

Senator Sue Boyce
Chair
Senate Community Affairs Committee
Parliament House
Canberra

Dear Senator,

Re: Social Services and Other Legislation Amendment Bill 2013

This short submission regarding the above Bill deals with the proposed changes to pension deeming rules and family payments.

While we welcome this Inquiry into the proposed changes, the extremely short time frame is of great concern to us, and means we are only able to offer the following brief comments and recommendations:

Age pension income test

We recommend that this schedule of the Bill be **passed.**

Currently, superannuation pensions attract highly concessional treatment under the pension income test compared with other forms of income. These rules were developed at a time when superannuation pensions were taxed, albeit concessionally. They were designed to encourage the use of pensions rather than lump sums.

Since 2007, superannuation pensions for individuals over 60 are no longer taxed. Further, since fund earnings are not taxed in the 'pension phase' and individuals can now contribute and withdraw from their funds simultaneously from the age of 55 years, income tax on earnings can be artificially reduced by 'churning' earnings through a superannuation fund (using salary sacrifice arrangements). In many cases, effective tax rates are thereby reduced from 47% to 15% (the tax rate on employer contributions of up to $25,000 per year).

In this new tax environment, it is difficult to justify concessional pension income test treatment of superannuation pensions. One of the purposes of generous tax treatment of superannuation is to reduce outlays on the pension, a goal that is undermined by the current income test. Further, it is inequitable that some forms of investment income are still treated differently to others for age pension purposes.

The Henry Report recommended that the concession be removed. This implies that superannuation pensions would be treated in the same way as other investment income through the 'deeming' arrangements, which are still concessional as superannuation funds earn above the deeming rates in most years.

We support the proposed phase-in arrangements for the new income test, which saves the existing income test treatment for superannuation pensions that commence before January 2015. This preserves existing arrangements for superannuation pensions already established and also gives individuals whose retirement is imminent one year to establish a pension under current arrangements.

Family payments

We recommend that the proposed extension of indexation pauses on certain higher income limits be **passed**. These mainly affect families on high incomes, above around $100,000 per year and it is important in the present budgetary environment that cash payments are targeted effectively to low and middle income families.

However, we are concerned about the freezing of the Supplements as these also benefit low income families. Although these supplements are poorly targeted (with the maximum rate extending to many families earning over $100,000 per year) many low income families rely on this additional financial support. We believe these payments should be better targeted and indexed to wages to ensure the payments keep pace with community living standards.

Attached is our recently released policy statement on reform of family payments, in which we advocate reforms along these lines. By better targeting family payments, we can increase the maximum rates paid to those on low incomes and reduce child poverty from the current unacceptable level of one in six children. This should include the restoration of indexation of maximum rates of Family Tax Benefit Part A to wage movements that was removed in 2009, so that payments for the poorest families do not continue to fall behind community standards.

We are also concerned about the increasing tendency to link eligibility for Family Tax Benefits (FTB) for low income families to school attendance. This is a feature of existing legislation (arising from recent legislative changes) rather than the present Bill. However, our strong preference is for Family Tax Benefits eligibility to be based mainly on age (expiring at 18 years in most cases) rather than school attendance or qualifications attained. This would be simpler for parents and would ensure that the poorest families do not drop out of the safety net due to problems at school.

Given the time constraints, we are unable to appear before the Committee to provide further evidence.

Yours sincerely,

Dr Cassandra Goldie
Chief Executive Officer, ACOSS