

Glenn Thorpe

ACT

26th May 2005

SUBMISSION NO. 131

AUTHORISED: 15.06.05



Committee Secretary
Standing Committee on Family and Human Services
House of Representatives

Dear Sir/Madam & Committee Members

Thank you for the opportunity to address your Inquiry into Balancing Work and Family.

I would ask you to consider a mother who has 3 children aged under 5. Do we as a society really want it to be worthwhile for her to go back to work?

The children in this family, where dad earns \$32,500 p.a. and mum doesn't work, cost the government \$12,286 in FTBA.

If mum returns to fulltime work as a childcare assistant, minding her own children and earning \$32,500 p.a., the family costs the government \$23,780, composed of \$17,997 in Childcare Assistance and \$5,783 in FTBA. If she can get childcare at \$45 per child per day the gross childcare cost is \$35,100.

This family receives not one cent more, their after tax/childcare take-home-money is identical in both situations.

The extra \$11,494 cost to the government comes not from the general populace but \$2,000 each from six of the same family type whose husbands' exert themselves to earn an extra \$10,000 p.a. each. Each of these families loses \$2,000 in FTBA, and it is this that pays the childcare industry.

For a family with 2 children the situation is that with mum not working the children cost the government \$8,168. Returning to fulltime work the cost to the government is \$13,515. This additional cost is bourn by three families whose FTBA is reduced when the dads earn an extra \$10,000 each.

Even a single child costs the government an extra \$1,696 p.a. when mum returns to work. This extra is paid for by the FTBA reduction when one dad earns an extra \$8,000 p.a.

The childcare industry is the most inefficient mechanism to care for children. Australian families are intelligent. Given half a chance they will care for their children effectively and efficiently. This half a chance is taken off them by the income test on FTBA.

Attached is a recent letter I wrote explaining this concept in more detail.

Thank you for your time.

Glenn Thorpe

Attachment to submission to Inquiry into Balancing Work and Family

Glenn Thorpe

Recent letter outlining basic concept of an integrated system

Thank you very much for your letter. Unfortunately your letter indicates that you misunderstand the basic concept I outlined. Please allow me to rephrase the facts

1. Our progressive tax system consists of three distinct components, namely:
 - a. Firstly, we have a standard tax rate of 31.5% that, as you point out, is the maximum marginal rate faced by 80% of taxpayers;
 - b. Secondly we have what can be considered to be a tax premium on higher income earners. This premium is 12% (to 43.5%) on income over \$63,000 and rises to 17% (to 48.5%) from \$80,000.
 - c. Thirdly we have a low tax component below \$21,600 that provides some advantage to *every* taxpayer.
2. It is the advantage component that is of interest. This advantage can be given a cash value of around \$4,000 for everyone earning over \$21,600. This monetary value is very simply calculated by figuring the tax payable on \$21,600 at the standard 31.5% tax rate ($\$21,600 * 31.5\% = \$6,804$) and subtracting from this the tax currently payable on \$21,600 (\$2,652 tax + \$324 Medicare Levy - \$235 Low Income Offset). This gives an advantage of \$3,827 if the Low Income Offset is excluded, or \$4,062 if the offset is included.
3. It is a purely administrative arrangement to convert this advantage to a monetarized cash transfer and to abolish the low tax rates. Your comment that it would not be possible to replace the current benefit (advantage) with a set cash transfer is simply wrong. For moderate and high-income people there is absolute equivalence between the current system and a system where a payment of \$3,827 is made, with a 31.5% tax being imposed from \$0.
4. This advantage component can be directly related to, and equated to, spouse advantage (Dependent Spouse Rebate/Family Tax Benefit Part B) and child advantage (Family Tax Benefit Part A/Youth Allowance). The values of these advantages are all in the same ballpark.
5. I state and conclude that there is no logical or valid conclusion other than that all these advantages represent an identical purpose, which is the provision of the Marginal Cost of Support of a person in an existing household (MCS).
6. If you conclude otherwise I beg you to state what these advantages represent, what purpose are they provided for. Our populace has indicated time and again that the advantage provided to income earners from the initial low tax rates is proper and feels right. I believe in the tacit logicity of our people, even though the reason for this advantage has never been explicitly defined. Please attempt to define it, for when you do I cannot believe that any other conclusion can be reached.
7. As the advantage for all family members represents the same thing the only logical thing to do is to clump these advantages together and withdraw the clump similarly.

8. Clumping this advantage into a single entity becomes such a large proportion of government expenditure that the withdrawal rate can be tied directly to the tax rate required to fund it. Table 1 shows the real options available to withdraw this advantage if it is clumped for all members of the family.

9. Table 1

Option	Family Keeps	Effective Marginal Tax Rate	Headline Tax Rate (flat)	MCS reduction	MCS cut-out, Single	MCS cut-out, married, no children	MCS cut-out, married 2 children
1	10%	90%	22%	68%	\$26,400	\$43,800	\$55,600
2	31%	69%	29%	40%	\$30,500	\$52,000	\$72,000
3	48%	52%	32%	20%	\$40,500	\$72,000	\$112,000
4	64%	36%	36%	0%	Does not cut-out	Does not cut-out	Does not cut-out
5	67%	33% rising to 48.5%	33%+ high income tax premium	0%	Does not cut-out	Does not cut-out	Does not cut-out

Note: MCS benefit starts reducing when entitlement to Newstart and Parenting Payment ceases

10. The lowish tax rates in options 4 and 5 in particular result from the *conversion of targeted assistance* currently provided to moderate & high income families to the untargeted MCS payment. This will result in some currently “deserving families” being worse off, however they gain the freedom to pursue arrangements that are efficient and effective for them.
11. There is no doubt that in the past nine years there has been a tremendous transfer of the community purse to families. My view is that the changes in the 2004/05 budget finally provided families with their fair share of this community purse. However targeting results in these monies being unfairly and incredibly inefficiently distributed between families.
12. Targeting is the government picking winners, it is the government saying which families are deserving and by default saying which families are undeserving. All of the targeted excess monies going to “deserving families”, *and all the inefficient administration costs*, are being bourn by “undeserving families”.
13. Of the options outlined only options 4 and 5 are realistic. All other options still require the segregation into deserving and undeserving families and the provision of targeted assistance to offset high EMTR’s for the deserving. Msrs. Saunders, Stone et al. are pushing proposals like option 1, but this is simply so harsh it will not be accepted by the community at large. Options 2 & 3 are basically nonsensical - for families to have an EMTR of 52% until an income of \$112,000, and then have it drop to 32% simply defies logic.
14. It is not only that many families would prefer the freedom to determine their own destiny over the extra finance the current constricted targeting provides. It is also that a simple, fair and open system promotes honesty, integrity and self-respect.
15. The main argument against this policy of monetarizing and paying as cash the advantage to income earners is that no-one likes to see their money given to other people for doing nothing. This is not a hard argument to counter - every adult, except the self employed who happen to make a loss, currently get this advantage, either through the tax mechanism I have described or included in Social Security payments. The provision of this advantage has developed because we as a society think it is

proper. The monetarization of this advantage is nothing more than a change of viewpoint that simplifies the basic system.

16. The real problem is the lack of bottle at the political level. Monetarizing and clumping the advantage simplifies and de-obfuscates the system. Everyone knows that this de-obfuscation will highlight sacred cows left, right and centre. The simplification provides a solid foundation from which it is possible to say "*no-one, but no-one, not ever, receives more advantage than a poor person*". Implementing this maxim will upset constituents left, right and centre. It is much simpler to run away from the problem and band-aid areas when public opinion becomes too loud.
17. The provision of advantage from the low tax scales in the progressive tax system is a blunt instrument from a bygone era. It can be compared to another blunt instrument that was utilized to assist families in the same bygone era, the provision of higher wages to men over women to support the single income family breadwinner. This achieved its objective, to a large extent, but it was offensive, unfair in many instances and had consequences. This was abolished in 1973, and computer technology allowed direct payment family benefits to meet its same objective over the subsequent years. It is time to abolish this remaining blunt instrument, however this time the replacement methodologies can be implemented without the 10 - 15 year economic disruption exacerbated by the previous example's bad implementation.
18. The difference between options 4 and 5 is that option 5 leaves the progression in the tax system so that, as you say in your letter, those in a position to make a relatively greater contribution to raising revenue do so. This is really a relatively minor matter, inconsequential to the basic position I have been advocating.

In regards to other matters in your letter:

- FTBB is not abolished but is replaced by the universal MCS advantage, which is a higher rate than FTBB or the Dependent Spouse Offset. On this matter it is noted that some families with a low second income, who receive both FTBB and some "earners advantage" from working, will be worse off under my proposal.
- I fully agree that this government has improved the lot families, as I have previously stated. My concern is that the complexity; the pernickiness; the penny pinching; the cap-in-hand attitude; and the bit-here, bit-there approach achieve no more than would be achieved by providing the base advantage I have outlined. Until the changes in the last budget your government, for 8 years, had been moving gently towards a result similar to that I have outlined. Targeted payments in general brought the families considered deserving up to the level of advantage that I am proposing, and more families were moving from being undeserving to deserving. I was impressed.
- In the last budget the massive reallocation of monies to families was nearly sufficient to have brought all families up to the deserving status, fully abolishing the complexity; the pernickiness; the penny pinching; the cap-in-hand attitude; and the bit-here, bit-there approach. Instead, the budget only achieved half of this. It did bring many more families into the deserving fold. However the other half of the monies went to already "deserving" families and increased their advantage to a level considerably more than base level of \$4,000 that I am proposing. This left many families still undeserving.
- It is the complexity within the system that breeds itself. The system is now so complex that calls for reform will continue forever, and the system will become still more and more complex. Simplification is the only reform that can break this cycle.
- It has been reported that we have had an increase in breeding, and the government has rightly claimed some credit for this from the fairer allocation of monies to families. Before breeding, prospective parents of any species need to feel comfortable that they

can support their offspring. The current system has provided this, however it still has the feel of impermanence and unsurety, advantage is cap-in-hand and is provided a bit here and a bit there. It mostly feels that it can be removed on a whim. The simpler system I have proposed provides more permanence, surety and solidity. This will further encourage breeding.

On that note I will wish you the best.

Thank you for your reply, it was appreciated.

Regards

Glenn Thorpe