



VCOSS
VICTORIAN COUNCIL
OF SOCIAL SERVICE

**Submission to the Senate
Economic References Committee into
the Structure and Distributive
Effects of the Australian Taxation
System**

April 2003

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Terms of Reference

The Senate has referred the following matter to the Senate Economic References Committee for inquiry and report by June 2004:

The structure and distributive effects of the Australian taxation system with reference to:

- a) The level, extent and distribution of the current tax burden on individuals and businesses;
- b) The impact of (a) on taxpayers' families;
- c) The use and efficacy of various tax and expenditure incentives to influence social and economic conduct, for instance participation in the workforce;
- d) The long-term social and economic impact of the current distribution of taxation, government spending and employment including the intergenerational consequences of the tax structure;
- e) The respective roles of the Commonwealth and the States in relation to the collection and distribution of taxation revenue; and
- f) Any other relevant issues which may arise in the course of the inquiry.

Introduction

The Victorian Council of Social Service (VCOSS) is the peak body of the Victorian community services sector, with approximately 500 members, mainly community service organisations. VCOSS engages in research, analysis and policy development regarding social and economic disadvantage and equity issues in Victoria.

A core principle underpinning this submission is that the overall direction and objectives of the federal taxation system should demonstrate the redistribution of wealth from those who benefit from Australia's social and economic infrastructure to those in need of a social and economic safety net.

We believe that the primary means of prioritising groups within the community for taxation-based redistribution should be through analysis of who is at greatest disadvantage.

The demography of disadvantage in Australia indicates that:

- Inequity is increasing;
- The relationship between low incomes, unemployment, and geographic location is considerable and has intensified;
- The relationship between geographic location and educational outcomes is considerable;
- Family income is becoming more important as a predictor of a child's life changes;
- Inequity and poverty are intergenerational and related to geographic location¹

Please also refer to VCOSS submission to Senate Inquiry into Poverty and Financial Hardship² for a fuller discussion of issues impacting on Victorians and proposals for responding to this.

VCOSS has made a number of submissions at a state level in the past, relating to the structure and distributive effects of taxation. In particular, VCOSS submitted to the *Review of State Business Taxes*³ and this submission is attached as it provides a view into our perspectives on taxation issues.

VCOSS also notes and supports the recommendations on taxation made by Australian Council of Social Service (ACOSS) in their Budget Priorities Statement 2003-04⁴.

Summary of recommendations

As well as reaffirming the principles from earlier VCOSS submissions on taxation matters, and supporting the ACOSS Budget Submission 2003-2004 on taxation issues, our key recommendations to this Inquiry are:

One: *Integrate the research and findings of the Taxation and Poverty Inquiries*

Two: *Make Tax Expenditure reporting more transparent*

Three: *Use the tax system to enable universal access to healthcare and*

Four: *change excises that currently provide industry with incentives to promote addictive products to a low-income market*

Five: *Use the tax system to unlock resources for affordable rental housing*

Six: *Influence the Ministerial Council on Gambling to take a nationally unified approach*

Seven: *Ensure that Australians reliant on income support are not disadvantaged by the tax system when entering, leaving and re-entering the workforce.*

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Recommendation One: *Integrate the research and findings of the Taxation and Poverty Inquiries*

It is notable that there is a major Senate Inquiry into Poverty and Hardship (closing date 28 March 2003) at a very similar time as this Taxation Inquiry. VCOSS has taken the Poverty Inquiry very seriously and is keen to ensure that these historic Inquiries can be linked together.

In addition, there is a major review and assessment of future directions for emergency relief taking place within the Family and Community Services Department (FaCS)⁵. VCOSS finds it difficult to make recommendations within this latter process when the former over-arching Inquiries are taking place, which could have major impacts on the funding and delivery of the social safety net in Australia.

VCOSS requests the Senate Economics References Committee to consult with the Community Affairs Reference Committee with a view to the integration and cross-referencing of information provided to the respective Inquiries. We note that Public Hearings are already being planned for the Poverty Inquiry during late April/May 2003. VCOSS has prepared a major submission to the Poverty Inquiry⁶ as has ACOSS⁷. Given these have already been made public, we trust these documents will be considered by the Tax Inquiry.

VCOSS trusts that the respective Committees will consider each other's findings before finalising their own.

Recommendation Two: *Make Tax Expenditure reporting more transparent*

In order to analyse the extent to which the tax system attempts to reduce and ameliorate disadvantage, the transparency of tax credits (tax expenditures) needs to be improved to indicate to the community the varied extent and nature of foregone income by the Federal Government towards the many different parties who benefit from these. Unlike programmed budget expenditures, the nature, extent and analysis of who benefits from various tax credits is not comprehensible to the average reader.

VCOSS calls on the government to review and improve the presentation of tax expenditures in budget papers to enable the community to comprehend the nature, extent and who benefits from the many tax expenditures (tax credits) currently being implemented across the full federal taxation system.

Recommendation Three: Use the tax system to enable universal access to healthcare and

Recommendation Four: Change excises which currently provide industry with incentives to promote unhealthy products to a low income market

Major revenues currently foregone within health do not benefit the most disadvantaged quartile of Australians – in particular, those who cannot afford private health insurance.

As argued by ACOSS in its Budget Submission⁸, VCOSS calls for greater targeting of tax expenditures to benefit disadvantaged Australians, to assist universal access to healthcare. The current health insurance rebate is a major diversion of funds from the health system to a segment of the population with relatively high socio-economic status, which should be re-allocated towards ensuring all Australians can access universal healthcare.

Public health inequalities should be ameliorated not exacerbated within the current tax system. There are numerous ways in which the current federal tax system works against better health for the community, yet long-term health consequences will have to be funded by the federal health system.

As one example, alcohol excise is charged at a differential rate depending on the container - bottle or cask. What this creates is an industry incentive to produce and market alcohol product to the low income 'cardboard' end of the market - and potentially to high risk groups such as Indigenous Australians whose health and well-being would instead benefit from direct health investment in their communities rather than them acting as a captive market for an industry incentive which has harmful impacts in their community.

VCOSS calls on the Government to review and re-allocate differential tax expenditures on excises and duties for addictive products (such as alcohol and tobacco), towards direct health spending to improve the health outcomes of targeted, disadvantaged groups.

Recommendation Five: Use the tax system to unlock resources for affordable rental housing

Secure housing is the foundation for participation in society. VCOSS argues there is great benefit to the government if all Australians have access to affordable, secure, stable accommodation with consequent savings in health, community services, income support and justice system costs which are required to respond to the consequences of homelessness, housing stress and unsafe housing situations in our community. Access to secure housing is also a basic human right enshrined in the United Nations Convention on Human Rights.

Currently, more than one in three Victorians seeking housing services are turned away due to excessive demand⁹ and there are over 41,000 people on the public housing waiting list¹⁰. The proportion of weekly income which is required to pay rent has increased significantly, indeed many households in receipt of Commonwealth Rent Assistance who pay more than 50 per cent of their income in rent are now in 'extreme housing stress'. Over 18,000 people fall into this category in Victoria¹¹. Housing stress is symptomatic of other pressures on a household and there is clear evidence that averting housing stress and homelessness is a major lever towards achieving social sustainability¹².

There is great potential for the tax system to unlock significant resources that will improve the ability of the federal government to deliver basic human rights in housing. In particular, VCOSS commends the findings of various Australian Housing and Urban Research Institute (AHURI) reports¹³ in this area, supports the ACOSS analysis of this issue¹⁴ and draws the Committee's attention to the recent Shelter Policy "Rebuilding the Australian Dream – National Shelter Policy Platform" just published¹⁵. A proportion of the community will never be

able to afford a mortgage and consequently, public policy levers need to respond to this in the context of achieving universal access to housing through means other than home-ownership.

Major tax expenditures which benefit homeowners and investors (First Homeowner Grants, Negative Gearing) should be restructured to reduce the tax benefits of negative gearing and provide grants and incentives for low cost rental housing.

Recommendation Six: Influence the Ministerial Council on Gambling to take a nationally unified approach

The Federal Government is in a position to have influence over state taxation regimes, in particular regressive taxes. One such regressive source of revenue in Victoria is tax from gambling.

There is much evidence indicating the effects of problem gambling on families and affected communities. The reliance on 'pokie' revenue in Victoria means the lower socio-economic demographic indirectly provides revenue to the State which benefits the whole community, with minimal return of revenues to assist those families harmed by gambling and to avert related social & economic disadvantage.

VCOSS is gravely concerned by the community impacts of problem gambling and by the increasing reliance by the State on this very regressive revenue base within Victoria, now totalling \$1.8bn per year.

Recognising that other models of gambling operate in states outside Victoria, which have less harmful effects on disadvantaged citizens, we argue that this Inquiry should influence the Ministerial Council on Gambling to take on a broad and unified national response to reduce state reliance on regressive income such as gambling taxes.

Recommendation Seven: Ensure that Australians reliant on income support are not disadvantaged by the tax system when entering and re-entering the workforce.

While recognising that attention on workforce disincentives is primarily occurring in the context of the *Review of Australians Working Together*, VCOSS notes that in a context of increased casualisation of the workforce and the increased extent of part-time work¹⁶, workforce disincentives not only need to be removed in terms of tapering taxation and access to concessions after citizens enter, leave and re-enter the workforce, but also through reviewing the way PAYE operates to ensure citizens have full access to earned income at the time when they need it to pay regular bills.

Currently only the first or 'primary' job is counted when the employer calculates PAYE, and all other jobs are subject to full marginal tax rate; however for many Australians who have to work several jobs to maintain their livelihood at one time, and who are experiencing high levels of personal debt (which often lead to utility disconnections and housing stress), there may be a simpler way for people to claim full net pay each pay period without having to wait until 1 July to claim over-paid tax.

¹ Martin, R., 2002. 'National priorities in a national system'. *Educare News* No. 128, August

² C Atkins for VCOSS March 2003. VCOSS Submission to Senate Community Affairs References Committee into Poverty and Financial Hardship, March 2003. Downloadable from www.vcoss.org.au

³ VCOSS Submission to Review of State Business Taxes August 2000

⁴ ACOSS 2003, 'Piecing it Together: Federal Budget Priorities Statement 2003 –2004' February 2003; noting chapter one has specific recommendations on Taxation

⁵ See www.facs.gov.au/

⁶ C Atkins for VCOSS March 2003. VCOSS Submission to Senate Community Affairs References Committee into Poverty and Financial Hardship, March 2003. Downloadable from www.vcoss.org.au

⁷ ACOSS 2003, 'Submission to the Senate Community Affairs References Committee into Poverty and Financial Hardship, March 2003

⁸ ACOSS 2003, 'Piecing it Together: Federal Budget Priorities Statement 2003 –2004' February 2003; noting chapter five has specific recommendations on housing and chapter eight focuses on health

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- ⁹ ACOSS 2003 'Australians Living on the Edge: Survey of the Community Services Sector 2002' January
- ¹⁰ VCOSS 2002 'Enhancing Universal Access to Services and resources' VCOSS State Budget Submission 2003-04, December.
- ¹¹ Housing Justice Roundtable, 2002. *Housing for all*, Housing Justice Roundtable, September, pp.4-5
- ¹² WACOSS 2002 'Housing and the WACOSS Model of Social Sustainability' Housing and Social Indicators project. Downloadable from www.wacoss.org.au
- ¹³ For example, Wood & Forbes 2000 and 2001, 'Fundamental Tax Reform and its Impacts on providers of rental Housing' Australian Housing and Urban Research Institute 2000, 2001 www.ahuri.edu.au
- ¹⁴ ACOSS 2003, 'Piecing it Together: Federal Budget Priorities Statement 2003 –2004' February 2003; noting chapter five has specific recommendations on housing
- ¹⁵ National Shelter April 2003, "Rebuilding the Australian Dream – National Shelter Policy Platform" downloadable from www.shelter.net.au
- ¹⁶ For example see figures on job creation provided by the ACTU in 2002 www.actu.asn.au