INQUIRY INTO THE TAX LAWS AMENDMENT (PERSONAL INCOME TAX REDUCTION) BILL 2008

SUBMISSION BY

SHOP, DISTRIBUTIVE & ALLIED EMPLOYEES' ASSOCIATION

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TAXATION LAWS AMENDMENT BILL 2008 SUBMISSION

The SDA is Australia's largest single trade union with a membership of over 217,000 workers. The SDA covers workers in retail, fast food, wholesaling, hairdressing, modeling, warehousing and the drugs industry.

The majority of SDA members are women and over half are aged 25 years or younger.

The workers in the industries covered by the SDA are generally regarded as low income workers and consequently SDA members are generally low income workers.

Most Australians live in families and most think those families are important. Therefore the Labor government must be prepared to place families at the centre of policy development.

This approach should guide the implementation of tax reform.

The SDA supports the content of the current Bill. We recognize it represents the implementation of an election commitment.

However taxation reform cannot be implemented without due recognition being given to the current economic situation of many Australian families.

A considerable number of families are today facing substantial economic difficulties. A large number of Australian families are living below, or close to, the poverty line.

An inequitable taxation system and inadequate levels of financial support for families are the major causes of this. There is a need for further immediate and substantial reform of both.

In framing taxation and social security policy, government must start from the position of seeking to protect and strengthen Australian families. As has long been recognised, families are the basic and fundamental unit of society.

Disposable income plays a major role in influencing whether a family is able to function effectively. Financial insecurity is often a key factor in the development of dysfunctional families.

NATSEM has shown that there are a range of factors which play a part in determining the living standards of families. [1]

The type of family that individuals live in has a major impact upon their likelihood of being in poverty.[2]

Being part of a couple family offers some protection against poverty. Those living in sole parent families continue to face the highest risk of poverty.

Families with children are more likely to be living in poverty than those without children. The larger the family the more likely it is to be facing financial hardship. Those with three or more children are twice as likely as those with one child to be living in poverty.

There is a clear link between poverty and employment. Those most likely to be in poverty are the unemployed.

Two thirds of all children living in poverty come from families whose principal source of income is government payments. Overall, the least affluent of Australia's children live in families where the head is not in the labour force, or is unemployed. Over one quarter of families with children rely principally on government transfer payments as their major or only source of income.

The second most likely group to be in poverty are people not in the labour force

Families with only one income are more likely to be living in poverty than those with two incomes. The risk of poverty declines as the number of income earners in a family increases.

According to NATSEM gender, ethnicity, location and age are relevant factors in any consideration of the incidence of poverty.

Those from non English speaking backgrounds are more likely to be in poverty. One in three people living in a family headed by a migrant was in poverty. [3]

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[1] "Australians in poverty in the 21st century",Rachael Lloyd, Anne Harding, Alicia Payne, NATSEM, University of Canberra,2004

[2] "Australians in poverty in the 21st century",Rachael Lloyd, Anne Harding, Alicia Payne, NATSEM, University of Canberra,2004

[3] Op Cit

Overall, poverty rates in capital cities tend to be lower than for regional and rural areas. However, due to the concentration of population in the capital cities there are actually more people who are poor in the big cities.

An income gap is growing between the inner metropolitan elites and people living in the outer metropolitan areas. The most affluent postcodes are all inner metropolitan.

The opportunities and incomes facing Australians are influenced by the State, suburb or region in which they live.

Average incomes in South Australia and Tasmania lag far behind incomes in other States.

Households of similar economic status tend to cluster. In turn this has the capacity to create low income suburbs and neighbourhoods. In these areas the social infrastructure provided by wealth is often missing. This leads to deprived neighborhoods characterized by poverty, disadvantage and social exclusion.

The young and the old are more likely to be in poverty than those in other age groups. The poverty rate is much higher for non dependants living at home and for young people not living at home, but fairly low for those over 15 living as dependants at home.

A much larger proportion of families with children are living on incomes that are just above (less than 10% higher than) the relevant Henderson Poverty Line (HPL), suggesting that a more substantial proportion of families are at risk of poverty. Henderson regarded those with incomes of less than 20% above the HPL as 'poor'.

The percentage of disposable income expended upon necessities by the first quintile of households is significantly greater than that expended by higher quintile groups. Conversely, the proportion of disposable income expended upon food and non-alcoholic drinks, housing, household services and domestic fuel and power declines as household income rises while the proportion spent on transport, recreation, clothing and footwear and alcohol increases. This is clearly due largely to the presence of more discretionary income in higher income households.

Poverty places families under enormous strains. The absence of adequate disposable income means that families may not be able to meet the basic needs of their members. In turn this may well lead to social isolation, feelings of lack of control, low status and low self esteem.

"*For their children it can mean not having a balanced diet, housing difficulties, being left out, feeling stressed, not enjoying school; and suffering from health problems*". [4]

The Australian Bureau of Statistics in Australian Social Trends 2007 reports upon the impact of financial stress upon families. The report shows that low income people experience very different living conditions compared to the rest of the community It reports that:

- 52.1% of low income people are unable to raise $2,000 for something important in a week compared to 8.6% of all others;
- 37.8% of low income people cannot pay electricity, gas or telephone bills on time compared to 7.8% of others;
- 13.5% of low income earners cannot pay for car registration or insurance on time compared to 4.6% of others;
- 8.9% of low income people are unable to heat their home compared to 1.2% of all others;
- 11.8% have gone without meals compared to 1.8% of others;
- 11.7% of low income people have pawned something compared to2.3% of all others;
- 26.4% of low income people have sought financial help from friends or family compared to7.8% of all others; and
- 14.7% of low income people have sought assistance from welfare or community groups compared to 1.2% of all others.[5]

NATSEM suggests that children born into socioeconomically disadvantaged families:

- often start with below average birth weight;
- are likely to be less well nourished;
- do less well in school;
- are more prone to sickness - with inadequate emphasis on prevention;
- are more likely to become overweight and do less exercise than other children.[6]

[4] "*Child Poverty, The Facts*", Brotherhood of St. Lawrence, 2000.

[5] The Age, Wednesday,8 August, 2007

Such children often start their lives with below average health, experience earlier onset of conditions and progression to more severe stages and on average die earlier than the rest of the population."

Ultimately poverty and the resultant fall-out can lead to social alienation and division. Families or individuals in poverty are inimical to the development of a socially cohesive nation.

Growth in poverty has a deleterious impact upon families and the individuals therein. It leads to problems in areas such as community safety, educational achievements and health. Apart from the direct impact on the people affected, crime impacts upon the rest of the community in greater risks of danger, increased insurance premiums and greater costs in maintaining community and personal security.

Government policy must address the issue of poverty. In doing so it must be recognised that many families are in particularly difficult situations. Often these families comprise the "working poor". The central theme of any coherent approach to poverty must be to ensure that all families have an income sufficient for them to be able to live decently in dignity.

Australia Fair released figures in October 2007 which showed the proportion of people living in poverty grew from 9.8% in 2003-04 to 11.1% in 2005-06. The figures show 2.2 million Australians living below the poverty line. The median income was $281 per week. Many retail workers earn less than these amounts.[7]

Poverty is not just absolute; it is also relative. People whose standard of living is significantly below the norm for society will always be poor in at least relative terms and be regarded as such.

Inequality in wealth is substantial and growing.

Australia's rich households are acquiring an even greater share of the nation's wealth pie as the gap between the have-mores and the have-nots continues to grow.

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[6] AMP-NATSEM Income and Wealth Report"Health and Income in Australia", Agnes Walker, Simon Kelly, Anne Harding, Annie Abello, April 2003

[7] Australia Fair News, 23 October 2007

Australian Bureau of Statistics figures show that 61% of Australian households' wealth is owned by the richest 20% of households while the bottom 20% of households own just 1% of the nation's total wealth.

The top 2% of Australian households has, on average $1.7 million in net assets whereas the bottom 20% have on average $27,000.

The figures also show that where the real disposable income of low and middle income households grew by 8% since the last survey was conducted in 2003-4, the real disposable income of high income earners grew by 10%.

In 2003-4 the bottom 20% had net assets of $23,000 while the top 20% had net assets of $1.4 million. Thus over the period the wealthiest group increased its net assets by $300,000 whereas the bottom 20% of families increased their net assets by $4,000.[8]

This recent growth in inequality builds upon developments which occurred during the past decade. There is now a significant amount of research available which suggests that inequality increased during the nineties. Moreover, during the nineties the incomes of the top 25% increased more rapidly than did the incomes of the rest of the community. [9]

"*So it appears that even during a decade of strong economic growth we made no progress in the battle against poverty*". [10]

The Australian taxation system has played a crucial role in this development.
In an antithesis of a Robin Hood approach the previous government favored the wealthy while forcing low and middle income families to bear an unfair tax burden.

All families should have sufficient income so that they can survive and make basic lifestyle choices.

The Australian taxation system lacks equity. The history of tax changes over recent years highlights this fact. In a series of "tax cut" announcements, the previous government delivered very substantial tax cuts to high income earners and relatively modest cuts to low and middle income earners.

[8] The Age, Friday, August 3, 2007
[9] Ann Harding, "*The Australian*", 25/2/2002
[10] Op Cit

The impact of the tax cuts over recent years is set out for a range of income levels in the table below. It is clear from this table that while low income workers benefited by only $13 per week over the period 2002 to 2007, higher income earning people received much larger benefits, with the highest income earners receiving over $142 per week tax cuts over the period.

Tax Cuts in Recent Years

Annual Income	Tax Cuts per Week - From 1 July					
	2003	2004	2005	2006	2007	Total
$25,000	$4.00	-	$6.00	-	2.88	$12.88
$50,000	$4.00	-	$6.00	-	14.42	$24.42
$60,000	$8.62	$13.85	$10.60	-	14.42	$47.49
$70,000	$11.02	$21.06	$17.50	$16.15	14.42	$80.15
$80,000	$11.02	$21.06	$27.15	$16.15	24.04	$99.42
$90,000	$11.02	$21.06	$36.76	$16.15	24.04	$109.03
$100,000	$11.02	$21.06	$41.57	$20.96	24.04	$118.65
$125,000	$11.02	$21.06	$41.57	$45.00	24.04	$142.69

Ross Gittins, writing in the Sydney Morning Herald observed after the 2007 Budget was delivered that "*the big winners are people….earning more than $85,000 a year….the relative losers are the great bulk of taxpayers who are on middle incomes between about$40,000 and $70,000 a year*".

High income earners benefited from the lifting of the second top tax rate from $50,000 p.a. to $80,000 p.a. and the lifting of the top tax rate from $60,000 p.a. to $180,000 p.a. They also benefited from the cutting of the second top rate from 42% to 40% and the cutting of the top rate from 47% to 45 %. Gittins points out those high income earners will now pay between 2 cents and 4.5 cents less tax on every dollar than they paid in the year 2000. The greatest savings will go to those on an annual income of $180,000.

In comparison, middle income earners have had overall tax savings of about 0.5 per dollar and no change on the 30% rate they pay on any increase in their earnings. [11]

The government should now build upon what is already proposed.

Tax rates for low and middle income earners should be cut further.

[11] The Sydney Morning Herald, Wednesday, May 15,2007

High income earners have received much more in tax cuts over recent years than low and middle income earners and there is no fair argument which justifies them receiving further tax cuts, especially if the value of those tax cuts is greater than the value of the tax cuts received by low and middle income earners.

There are further changes to the tax system which should be initiated.

The absence of tax indexation has led, over the years, to low income earners moving into brackets where they are paying a greater share of their income in tax than previously. The structure of the tax system should be re-visited to provide greater equity to low income families.

Many low income working families are facing high effective marginal tax rates. NATSEM estimated that in 2006 that 7.1% of working age Australians faced an EMTR over 50%; this represented 910,000 Australians. Almost two-thirds of these were couples with children.

Almost two thirds of these 910,000 Australians were parents living with their partner and dependent children. Seven in every ten are middle income families or singles, on incomes which place them in the middle 40% of the income distribution range.[12]

Ten years ago men were more likely to face high EMTRs than women, but this trend has reversed.[13]

The Australian Fair Pay Commission, in its Wage-Setting Decision of October 2006, reported that NATSEM estimates that 1.9 million low paid workers faced EMTRs of more than 50 per cent.

Those facing EMTRs of 70% or more make up 2.5% of the low paid group. [14]

Couples with children and sole parents are the most likely to have high EMTR's. Those employed part time are more likely to face high EMTR's

[12] Trends in effective marginal tax rates 1996-97 to 2006-07, AMP- NATSEM Income and Wealth Report, Issue 14, September,2006,p1.
[13] Trends in effective marginal tax rates 1996-97 to 2006-07, AMP-NATSEM Income and Wealth Report,Issue 14, September, 2006, p1.
[14] AFPC Wage-Setting Decision October 2006,p78

An effective marginal tax rate is the percentage of one dollar increase in private income which is lost to income tax and, for those eligible to receive income support, withdrawal of benefit payments.

In 2005 the ACTU commissioned NATSEM to analyze the distribution of effective marginal tax rates for Australian employees. The NATSEM data was produced for the 2004-05 financial year.[15]

This research showed that across deciles 2 to 6 the average EMTR is at or close to 40%. However at deciles 2 and 3, where the gross family income per week is $533 and $646 respectively, significant numbers of families are facing EMTR's in excess of 60%. Almost 180,000 individuals fit into this category. It is clear that most working individuals facing high EMTR's are in the low or middle income categories or deciles.

Of those employed full time, 61% have EMTR's at 40% or below but 34% have EMTR's between 40% and 60% and 5% have EMTR's above 60%. For those employed part time the situation is considerably worse with 79% having EMTR's at 40% or below but 7% having them between 40% and 60% and 10% (double the figure for full time workers) having EMTR's in excess of 60%. Among the unemployed most, when they have earnings, have EMTR's above 60%.

Families are much more severely impacted upon by high EMTR's than single individuals. According to the NATSEM research almost no working single people or working couples without children have EMTR's over 60% and only 26% of such couples without children have EMTR's over 40%. On the other hand 44% of working couples with children have EMTR's between 40% and 60% and 15% have EMTR's in excess of 60%. For working sole parents the respective figures are 39% and 32%.

An example of this is with Family Tax Benefit (A) which is withdrawn at the rate of 20% (lower than previously) but when a personal tax rate is added, the effective marginal tax rate becomes 50%.

Mr Nigel Ray, General Manager, Tax Analysis Division in Treasury, admitted during a Senate Estimates hearing that some low paid households face an EMTR on additional earnings of at least 80% and up to 98.5%.[16]

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15 ACTU submission to Australian Fair Pay Commission, July 2006.

16 Mr Nigel Ray, General manager, Tax Analysis Division in Treasury, Committee Bulletin, June 1-15, 2006

The impact of effective marginal tax rates acts as a strong disincentive for people, especially mothers as the second income earners, to participate in the paid workforce.

There is a strong case to argue that poverty traps caused by the "stacking" of income tests should be reduced.

The introduction of earned income tax credits would overcome the problem of high effective marginal tax rates.

The imposition of a wealth tax on those with substantial wealth is justified on equity grounds.

A wealth tax would reduce the wealth gap and help fund the establishment of greater vertical and horizontal equity in the system.

Australia has an unfair taxation system. There are still loopholes which can be exploited to allow some high earners and businesses to pay less than their fair share of tax.

Closing down taxation loopholes must be a priority.

It should be noted, that by international standards, Australia is a low tax country.[17]

Further changes to improve the disposable income of working families are also necessary.

The presence of children places a significant economic burden upon families. Both the taxation and the family assistance systems fail to recognise this.

According to the National Centre for Social and Economic Modelling, the typical Australian family in 2007 would have paid $537,000 to raise a child from birth to age 21 [18]

For a low income family today the average cost of raising a child ranges from $65 per week for a child aged 0-4 to $260 per week for an 18 to 24 year old. The comparable

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[17] Warburton/Henry Tax Review: International comparisons of Australia's Taxes, April, 2006

[18] AMP – NATSEM - AMP Income and Wealth Report, Issue 18, Anne Harding, NATSEM, December 2007.

costs for a middle income family are $132 per week and $367 per week. High income families pay even more.

The costs of children increase with their age and are also related to the overall family income and the attendant lifestyle of the family

Food is the biggest expense in all demographics, and for low-income families, it amounts to a quarter of the overall cost of the child. Transport, recreation, housing, clothing and other costs, such as medical and dental, are the other big-ticket expenses. These figures do not include the estimated costs of parents' lost earnings.

Clearly children are a major expense for families. This expense grows as children become older. As such, it is important to take this factor into account when determining appropriate support payments to families.

The Australian Institute of Family Studies has found that having one child reduced a woman's average lifetime income by $162,000.[19]

Raising children places great financial and social pressures upon parents and families. The failure of the taxation and social security systems to recognise the financial burdens incurred by families with children is a major factor in why many families are struggling to make ends meet.
There is a need for much greater horizontal equity in the Australian taxation system. There is also a need for much greater integration of the taxation and social security systems. The government has a responsibility to ensure that all Australians have sufficient income to live decently and with dignity.

The provision of income support to families, either through the taxation system and/or the social security system to allow them to effectively carry out their functions, should not be seen as providing welfare. Rather this should be seen by the government and the community as a long term investment in the future of the nation.

"Social security is very important for the well-being of workers, their families and the entire community. It is a basic right and a fundamental means for creating social cohesion, thereby helping to ensure social peace and social inclusion. It is an indispensable part of government social policy and an important tool to prevent and

[19] *NATSEM-Personal Investor Magazine).*

alleviate poverty. It can, through national solidarity and fair burden sharing, contribute to human dignity, equity and social justice." [20]

In a paper presented to the 7th Australian Institute of Family Studies Conference on 26 July, 2000, NATSEM (The National Centre for Social and Economic Modeling) showed clearly that introducing and then increasing payments to low-income working families with children has been a resounding social policy success.[21]

NATSEM shows that government initiatives in regard to increasing family support payments and in improving access to education and health services for all members of the community during the 1980's significantly ameliorated the financial position of many low income families, especially for those with dependent children.

Low income families are very reliant upon adequate government payments to make ends meet.[22]

Without these payments many more families would be in poverty and many low income working families would be better off relying totally on social security. Public education and health services also play a hugely important role in income redistribution.

For SDA members and their families, an effective social welfare or social security system is critical. Income support payments from government often make the difference between whether low income families can enjoy a basic but reasonable standard of living or otherwise.

Government payments have helped many low income families escape poverty. Nevertheless, there are still large numbers of Australians, many of them children, living below the poverty line. As such, maintenance and improvement in our family payments and support structures is critical if large numbers of families are not to fall back into poverty, and if those below the poverty line are to be given a better chance at a reasonable standard of living.

However the current levels of family support payments, especially when considered with the taxation system, do not meet even the basic economic needs of families. There is an urgent need for reform.

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20 International Labor Organisation, Report of the Committee on Social Security, Conclusions Concerning Social Security, 6 June 2001.
21 Social Policy Matters, The Changing Face of Child Poverty in Australia: 1982 to 1997-98, Anne Harding and Aggie Szukalska, NATSEM, University of Canberra.2000
22 ABS Income Distribution - 6523 - 1999-2000.

The social security system should not prevent or discourage an individual from entering, re-entering or remaining in the workforce or from taking additional part-time work. The current system, in some circumstances, does exactly this.

Family Tax Benefit Part A was introduced as a means of providing support to families with children.

A family can earn $41,318 p.a. before payment is reduced. Above that figure, a withdrawal rate of 20 cents per dollar applies until the Base Rate is reached. At $91,542 (plus $3,650 per extra child) a 30 cents withdrawal rate applies to the Basic Rate.

Under this scenario, two shop assistants earning a full-time base award rate of pay would have the income test applied to them. They would receive only a marginal additional rate payment. It is clear that many low income families are not receiving adequate support from the government under this payment.

The income limits at which the full payment of Family Tax Benefit A begins to be withdrawn are too low and must be adjusted.

The current large family supplement is little but a token gesture. Large families should be treated equitably in regard to being able to access adequate income support payments.

Greater support should be provided to families with three or more children.

The Parenting Payment is the main income support payment for low income parents whose primary activity is the care of children under sixteen years of age.

The vast majority of families with a parent in the paid workforce do not receive the full Parenting Payment. The effective payment withdrawal rate is set at a level where very few families with an adult income earner can actually receive it. This payment is failing to meet its original intention of providing support to low income families.

The Parenting Payment income test should be adjusted so as to make this payment accessible to all low income families.

Parenting Payment should be provided on an equitable basis. If an allowance is going to be paid for parents undertaking home child care, then it should be paid according to the same principles applicable to those parents utilising away from home child care, such as centre-based care.

Family Tax Benefit B was designed to provide additional assistance to single income families, including sole parents, especially families with children under 5 years of age. Family Tax Benefit B is paid in addition to Family Tax Benefit A. Further, a recipient may also receive payments such as Maternity Allowance, Child Care Benefit and Rent Assistance.

The primary income earner's income is not taken into account to calculate Family Tax Benefit B. The second income earner can have $4,380 p.a. before payment is affected, with a reduction of 20 cents for each dollar earned above that figure. A relatively small amount of work by the second income earner can significantly reduce a family's entitlement.

A mother who stayed at home all year on a full-time basis to care for her children but decided to take 8 weeks part-time work in the lead up to Christmas in order to pay for the additional costs of Christmas and sending children back to school, would have the income test applied to her in a way that she started to lose 20 cents in the dollar after 7.5 weeks work.

In another situation a mother at home on virtually a full time basis who worked 6 hours per week at the local store would not receive the full payment.

It is important for the government to recognise that not all ”stay at home” parents are “doctor’s wives” who have a partner on a large income. A considerable number of them are low and middle class people who simply make the choice to stay at home and care full time for their children while the children are young. In doing so, these people perform a valuable community service. They should not then be required to experience a below average standard of living.

The income test for Family Tax Benefit B is unreasonably harsh and should be adjusted.

The introduction of Family Tax Benefit B for single income parents was a welcome initiative as it recognized that single income families face particular financial difficulties as a result of having one spouse at home effectively on a full time basis.

Family Tax Benefit B is a taxation benefit which flows to all families irrespective of the income level of the primary earner. On one hand we have the Parenting Payment which is increasingly restricted in its applicability, we have Family Tax Benefit A where the means test is applied to the total family income, and on the other hand we have Family Tax Benefit B which is not means tested. This raises fundamental issues of equity.

The position is further complicated by the fact that while a wealthy parent can stay at home full time to care for children if they so desire (and receive Family Tax Benefit B) low income parents, especially single parents, often need to work to make ends meet and in the case of a single parent receiving government assistance, they will be forced back into the workforce when their child reaches eight years of age. It is one rule for the wealthy and another for the rest.

If the government is going to means test this payment on the basis of the primary income earner's income, then the money saved should be re-directed to providing higher payments for those who continue to receive the payment. This would go some way to restoring fair treatment for those on low and middle incomes who choose to have one parent stay at home to care for and rear children.

It would be totally inconsistent policy for the government to means rest Family Tax Benefit A and B but to not means test other family support payments such as the Baby Bonus and the Child Care Tax Rebate.

Several European countries currently provide substantial financial support to parents who have young children. In Norway women receive a maternity payment equivalent to approximately US $6000 per annum for three years after the birth of a child. This payment is equivalent in value to the state subsidy of a child care place. In Finland a homecare allowance is paid. France provides a flat rate payment to all mothers caring full time for children. Some other European countries provide similar systems.

There is a strong argument that further financial support should be provided to families but such support should be targeted.

The SDA supports the content of the current Bill, insofar as it goes. We advocate, however, for much greater taxation relief and overall improved financial support for low and middle income families with children.