



NESA

Submission to Review of Australia's Tax System

About NESA

The National Employment Services Association (NESA) is the National peak body for the Australian Employment Services Industry. NESA's membership is widely representative and we are the only peak body which represents all providers including community, private, public and Government sector member organisations and which represents all Commonwealth funded employment service and related programs.

NESA was established in 1997 following the announcement of major reform to Australia's Commonwealth employment services and is the key voice of the employment services industry. As an industry-led association we are dedicated to the development and improvement of the employment and related services industry in order to implement sustainable solutions to address Australia's employment and workforce participation challenges.

NESA's members are highly aware of the social and economic impacts of unemployment and are focused on meeting the needs of job seekers, particularly those most disadvantaged and, assisting employers to find the right skills and person for their business. On behalf of its membership, NESA works with Government, employers and other stakeholders to develop policy, strategies and initiatives which improve social and economic outcomes for Australian job seekers and employers.

NESA has more than 150 members who deliver the range of current State, Local and Commonwealth Government funded programs such as Job Network, Work for the Dole, Job Capacity Assessors and Indigenous Employment Programs.

The recent announcement of successful tenderers for Job Services Australia, which will be the primary Commonwealth funded employment service, indicates that NESA members will operate over 90% of all contracted sites. Member organisations range in size from small agencies operating single sites in local communities to large organisations with multi-site operations across Australia. Members deliver employment services from a diverse geographical base with operations in metropolitan, regional centres, rural and remote communities.

NESA regularly consults with its members to represent and advocate their interests to Government and other stakeholders. NESA provides members with a voice in key decisions taken by Government that impact on the industry, as well as providing member support via advocacy, policy development and advice, member services, information, education and training, as well as practice and professional development.

In presenting this submission NESA has elected to respond to a limited number of questions from Chapter 4 of the Consultation Paper most relevant to our area of work. Our comments are grouped under the relevant discussion points.

Q4.5 Should people in different circumstances be taxed differently (for example, by age, occupation, location), and what might be the implications of such arrangements? Are tax offsets the best way to achieve differential taxation?

The overall thrust of the NESAs submission is that tax and the income support system (and the relationship between the two), should be simplified. Creating a range of differential tax systems based on occupation or location whilst superficially attractive, presents a number of potential issues and adds to the complexity of the tax system and processes.

Location

Providing differential tax rates for locations is often aimed at encouraging individuals (and their families) to remain in particular areas or to shift to other areas; generally in line with economic needs and opportunities. However, as the Australian Fair Commission research notes (1), motivation for individual mobility is complex. This research shows that:

- Motivation for moving personal reasons (26%) work related (16%)
- 53% of reasons for moving were housing related
- Low skilled are less likely to move
- Those with families are less likely to move

The experience of employment service providers is that initiatives to effectively encourage and support people to relocate to locations offering increased opportunities for economic participation require careful consideration. Our experience indicates that inadequately considered decisions to relocate often result in adverse social and economic consequences for the individual, their family and communities (destination and origin).

NESA does not consider that the establishment of differential location based tax rates are the most effective mechanism to encourage relocation as the motivation for individuals mobility is based on complex socio economic reasons that are best addressed by social policy initiatives.

In providing differential tax rates for locations additional complexity in managing National business operations is created. In addition we would be concerned at the potential for such differences to create increased opportunities to manipulate taxation responsibilities.

Occupation

NESA believes that the Australian wage system is the best mechanism for distinguishing between the relative worth of different occupations.

It is difficult to envisage how differential tax rates based on occupation could work. Utilising a skilled based assessment would be complex and difficult to administer. Rates based on areas of "skill shortages" would in our view be complex and require constant revision based on changing national and international factors.

Age

NESA notes that there is currently a different set of tax rules applying to older tax payers embedded in the aged pension and superannuation mix. NESA does not purport to have expertise on this issue. NESA considers that the wage system is the best mechanism for providing differential income based on age. This mechanism recognizes skill differentials through apprenticeship/traineeship wages and under the age rates that apply in certain industries. Where it is deemed necessary to provide supplementary income for targeted groups such as the low paid or nearing retirement NESA suggests that this could be achieved through the income support system through targeted adjustment of qualification for payment and taper rates.

Q4.12 In a targeted system there is a trade-off between the level of income support and workforce incentives. Given this, what priority should be given to reducing the disincentives to work? and

Q4.13 What structure of income tests and taxes would best support the increasing diversity of work and the need to increase workforce participation, and where should improved incentives be targeted?

NESA considers that the relationship between income support, tax regime and wage levels (particularly the minimum wage), should provide workforce participation incentives. At present there is not a clear differential between after tax income of those in the workforce at entry level and minimum wage positions and those receiving income support payments such as the Newstart Allowance.

This can be illustrated in simple terms by the following comparison: The current minimum wage is: \$28,276.56 tax on this amount is: \$3,172 leaving a net income of \$ 25,104.56 pa.

In contrast an individual receiving single New Start Allowance of \$23,571.40 pa or a Newstart Allowance with 1 dependent is \$25,500 pa.

In recognition of this issue, successive governments have attempted to lift the effective net income of low income workers through a range of income tax rate changes, tax deductions and transfer payments. Examples of current arrangements include:

- Family Tax Benefit Part A and B
- The Low Income Tax Offset and
- Many policies targeted at specific taxpayers such as those with carer responsibilities, are seniors, or on the birth of a child.

Nonetheless, the interface between those moving from income support to paid work and issues related to so called high marginal tax rates remain. The additional cost of participation in work which includes such things as: childcare, transport and tools of trade must be considered. While to some extent such costs are supported by the existing tax system they remain as part of the disincentive to economic participation. While taxation mechanisms generally provide an annual return to supplement income those returning to employment focus on the immediate income and impact on the household in assessing if they will be better off in work. Many income support recipients will also calculate the loss of other benefits and concessions such pharmaceutical benefits in their assessment.

Improving the retention of benefits and concessions to support transition to work could improve return to work incentives. However, our experience indicates that the mechanisms to access these benefits must be streamlined and simple if they are to be successful.

Reduction of Income Support Levels

NESA does not support any erosion to income support levels to create an income differential. NESA believes such a policy approach has a number of difficulties:

1. As a civil society we reasonably accept that those on income support should receive sufficient income to satisfy basic needs. Various research studies have concluded that a reduction of income support could be sustained by recipients.
2. Recognition is needed that not all income support recipients are able to readily transition to the workforce. Barriers include: lack of appropriate skills, including basic literacy and numeracy, geographical location, and those with disabilities.
3. In the current economic climate, even those who are highly motivated with no discernable barriers may not readily find employment.

Increase Minimum Wage

Given the current economic climate NESAs is reluctant to argue for a substantial increase in the minimum wage. Whilst employers have considerations other than the cost of labour in deciding to employ staff, it cannot be denied that cost is a factor in many industries. Often long term unemployed or those with barriers such as a disability, have a tenuous hold on employment. They are often employed in lower paid and casual positions and unfortunately, in times of economic downturn, are the first retrenched.

Increase Effective Net Income

In essence this is an extension of the current arrangements through a mix of deductions, tax benefits and transfers. Some have suggested that this system could be simplified by the substantial increase in the tax free threshold.

The current tax free threshold of \$6,000 has not been increased since 2000. Increasing the threshold would reduce the need for various low income offsets and other arrangements.

Whilst NESAs has not costed the impact of this change, but from a policy level, it would seem sensible to review the tax free threshold as part of a simplified tax system. An increase to the tax free threshold would also provide more immediate impact on household income rather than tax offsets which generally provide benefits annually.

In Work Benefits

The Reference Group on Welfare Reform (2) canvassed the option of 'in work benefits' which they summarized as:

- Supplementing wages through basic income support payments
- Employment conditional benefits
- Return to work benefits and
- Participation supplements/accounts

Employment conditional benefits were defined as being "... paid only to people who have income from employment or who have certain minimum levels of employment".

"They can be implemented either through the benefit system or the tax system. Overseas examples include the Working Families Tax Credit in Britain and the Earned Income tax Credit in the United States".

Return to work benefits were defined as "... providing some form of bonus or other temporary assistance to cover the transition to assistance". Suggestions in the report included:

- The participation supplement and
- Transition bank

The Transition Bank would it was proposed allow participants in receipt of variable income and assists long term unemployed by "... offsetting the initial earnings against the persons transition bank balance, thus allowing the person to retain more of their earnings".

Whilst acknowledging that the tax system currently includes provisions such as the low income tax offset and the ABSTUDY Income Bank, NESAs notes the series of recommendations within the Reference Group Report and recommends the Tax Review examine some of those innovative solutions as part of a simplified income support and tax system.

Marginal Tax Rates

NESA acknowledges that whenever there are means tested income support benefits, there will be a level at which a person entering into the workforce will find their effective income being reduced at a high % rate because of the combination of that means test and tax rates. We do however suggest that some lengthening of the taper rates may be an appropriate policy response to reduce disincentives to economic participation.

For example, at present the New Start Allowance is reduced by 50% for every dollar earned over \$62 per fortnight (\$1,612pa) up to \$250 per fortnight (\$6,500) and it then reduces by 60% to the maximum allowable amount. (Starting at \$848.46 pf for a single with no dependents).

As the single minimum wage is currently \$28,276 and the marginal tax rate is 15%, for every dollar earned, the combination of the Newstart means test and the tax rate is an effective rate of 65%

Q4.14 Does the tax-transfer system create disincentives for individuals seeking to acquire new skills or upgrade existing skills? If so, what sort of tax or transfer changes would provide better incentives?

Youth Allowance, Austudy and ABSTUDY are the major income supporting allowances for those in education or training. Youth Allowance, Austudy and ABSTUDY are means tested payments. The means test is different for these benefit types. In addition, the actual payment levels for the youth allowance are less than the New Start allowance. (\$371.40 pf for a single Austudy individual, compared to \$453.30 New Start for a single per fortnight).

NESA supports an equitable income support system for those in study and those seeking work. The reduced income support provisions in our experience are a major disincentive for individuals seeking to improve skills and employability. Our experience would suggest that many decide against pursuing education and training and others down grade the level of training they participate in and achieve less marketable and desired skills as a result. The challenge of undertaking full time job search requirements as is required in most circumstance to continue to qualify for Newstart while undertaking study is challenging and often contributes to incompleteness of education or training.

For existing workers particularly the low paid better assistance to meet the cost of pursuing improvements to skills is desirable. While such costs are tax deductible the upfront costs are difficult for many to meet.

References

(1) Labour Mobility and low Paid Workers. W Mitchell- Centre of Full Employment and Equity, December 2008. (Report Commissioned by the Australian Fair Pay Commission)

(2) Participation Support for a More Equitable Society. Final Report of the Reference Group on Welfare Reform, July 2000