## Submission in response to *Australia's future tax system consultation paper*

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NUS wishes to briefly address three matters that were raised in Chapter Four of the *Australia's future tax system Consultation paper*, in particular relating to disincentives for individuals seeking to acquire or upgrade skills.

### <u>Tax Deductibility of Course Material and Ancillary Fee Expenses for Low Income Earners</u>

The first is a matter of equity relating to students who are reliant mainly on part-time and casual holiday income while studying for their qualification.

The consultation paper addresses the issue of potential income foregone by individuals to undergo study and training. This is often ignored in many policy debates over the adequacy of student income and contribution rates.

Page 111 of the consultation paper recognised that low income earners may not earn enough to receive a substantial tax deduction to receive some compensation for income foregone while studying. This would apply in particular to students primarily dependent on part-time and casual work income. In many cases these students will receive little or no Commonwealth allowances due to the tight eligibility criteria that exclude many students, even from low-middle income families.

These students generally will not be able to claim costs of course materials and ancillary fees as tax deductions unless it is related to their current earning activities (rather than future earning activities).

This produces the perverse outcome that a currently employed professional upgrading her skills is eligible for student related costs as a tax deduction, while the student surviving on low paid casual work while she is studying for an initial qualification is not.

The high costs of study at Australia higher education institutions mean that most students are doing so to either for an initial professional qualification or for professional development. There is no need for the tax system to guard against frivolous study.

A possible policy solution would be to allow all students enrolled at an accredited Australian Higher Education or VET provider with a personal taxable income that is low enough to qualify for the Low Income Tax Offset to be able to count their course material and ancillary fees expenses as tax deductions.

## **Drawing on Super Funds to Pay Study Costs**

The second matter we wish to address is where the consultation paper (page 111) mentions that some countries allow individuals to temporarily draw on their retirement funds to pay for the type of further training and study they wish to pursue (ie, in the Australian context this would mean use your superannuation funds to pay HECS or FEE-HELP up front or living costs while studying).

While this flexibility may suit some individuals NUS believes that the overall impact of such a measure would be negative for students, particularly in terms of increased study costs (and thus disincentives to study).

Despite some recent improvements the Commonwealth continues to substantially under-invest in higher education compared to almost every other comparable OECD country. Australian students fees are amongst the highest for public universities in the OECD.

Fees of postgraduate coursework students are uncapped. While the government currently is opposed to the removal of the caps on HECS student contribution rates for undergraduates in the shift to a demand-driven system the (Bradley) Review of Higher Education flags this fee deregulation in the future:

"*In the future, there could be competitive advantages from full price discretion and so further deregulation or total removal of price caps*" [1]

The majority of Australian students are now mature aged (over 21). NUS is concerned that opening up individual's superannuation funds in such a manner will lead to substantial increases in student fees, fuelled by this transfer of money set aside for old age to the operating budgets on universities.

Such an approach may provides a short-term fix for a Commonwealth government that may be unwilling to allocate the extra public funding needed to enable our universities to keep up with their overseas counterparts. However, it undermines the long term primary priorities of superannuation funds in dealing with our rapidly ageing demography.

[1] DEEWR, Review of Higher Education: Final Report, Dec 2008, pg 166, www.deewr.gov.au/he_review_finalreport

## **Common indexation of allowances**

The third matter we wish to address is the idea of a common indexation method that could be applied to all allowances (pg. 100). NUS is not in a position to speak about all allowances. But we can inform the review of our position on aligning the indexation of student allowances.

NUS's main priority since 2004 has been student income support reform – our current *Demand A Better Future campaign* builds on several years of work.

The erosion of allowances and eligibility income thresholds due to inadequate indexation has been particularly severe. For example our research has shown that inadequate indexation of the parental income test threshold of student allowances over the last three decades led to a 46% decrease in its real level (from $58,608 to $31,400 in 2008 terms). [2]

NUS is supporting the recommendation from the Bradley Higher Education Review to replace the current CPI indexation method and to instead align student allowances with the indexation method used for the Family Tax Benefit (ie that takes into account CPI and Male Total Average Weekly Earning movements).[3]

*For further information please contact the NUS Research Co-ordinator, Graham Hastings (research@nus.asn.au).*

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[2] NUS Submission to DEEWR Review of Higher Education, 2008, pg 26

[3] DEEWR, Review of Higher Education: Final Report, Dec 2008, pg 66, www.deewr.gov.au/he_review_finalreport