

AUSTRALIA'S FUTURE TAX SYSTEM REVIEW

SUBMISSION BY

***SHOP, DISTRIBUTIVE & ALLIED EMPLOYEES'
ASSOCIATION***

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INTRODUCTION

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.

SUMMARY OF RECOMMENDED REFORMS

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

This approach should guide the implementation of tax reform.

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 immediate and substantial reform of both.

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

High effective marginal tax rates are a major problem. The introduction of earned income tax credits would overcome this problem.

Indexation of thresholds should be considered.

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

The SDA does not support any move towards a greater reliance upon consumption taxes.

Closing down taxation loopholes must be a priority.

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

The government has a responsibility to ensure that all Australians have sufficient income to live decently and with dignity.

It is imperative that the taxation system guarantee the government sufficient revenue to achieve this and other social goals.

Low income families are very reliant upon adequate government payments to make ends meet.¹

The income limits at which the full payment of Family Tax Benefit A and B begin to be withdrawn are too low and must be adjusted.

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

The government has an obligation to ensure that all parents can access formal child care where they need or desire to.

This requires greater financial support to those who need it.

The level of financial support provided for parents by government should be income related.

¹ ABS Income Distribution - 6523 - 1999-2000.

Consideration should be given to reducing the complexity of the current system by simplifying and integrating payments where possible.

Adequate superannuation is a crucial component of retirement security.

Government should act to encourage and expand industry superannuation.

The majority of recipients rely on the pension as their main source of income and this will continue to be the case for the foreseeable future.

There is a strong argument to increase the pension level.

A FAMILY FRIENDLY AND FAIR AUSTRALIA

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

Australians want a society which is fair, a society in which all people can live decently with dignity and a society which values families and places them centre stage.

This approach should guide the implementation of tax reform.

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 immediate and substantial reform of both.

In framing taxation 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.²

The type of family that individuals live in has a major impact upon their likelihood of being in poverty.³

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

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.⁴

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.

³ "Australians in poverty in the 21st century", Rachael Lloyd, Anne Harding, Alicia Payne, NATSEM, University of Canberra, 2004

⁴ Op Cit

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". ⁵

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 to 2.3% of all others;
- 26.4% of low income people have sought financial help from friends or family compared to 7.8% 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.⁶

NATSEM suggests that children born into socio-economically 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.⁷

⁵ *"Child Poverty, The Facts"*, Brotherhood of St. Lawrence, 2000.

⁶ *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.⁸

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.

⁷ AMP-NATSEM Income and Wealth Report "Health and Income in Australia", Agnes Walker, Simon Kelly, Anne Harding, Annie Abello, April 2003

⁸ 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 \$4,000.⁹

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. During the nineties the incomes of the top 25% increased more rapidly than did the incomes of the rest of the community.¹⁰

"So it appears that even during a decade of strong economic growth we made no progress in the battle against poverty".¹¹

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.

⁹ The Age, Friday, August 3, 2007

¹⁰ Ann Harding, "The Australian", 25/2/2002

¹¹ Op Cit

Adequate Revenue

Australians are looking for a tax system which is characterised by the principles of:

Equity,
Simplicity,
Transparency,
Efficiency, and
Adequacy.

There is a broad recognition in the community that government needs to acquire sufficient revenue to ensure that all Australians can live decently with dignity.

Australia is a low tax country.

Tax revenue is 31% of Gross Domestic Product whereas the OECD average is 36%. Australia is the eighth lowest taxed country of all OECD countries.¹²

It would be counter-productive to the long term needs of Australian families for the government to pursue an approach designed to reduce or even retain at the current levels the taxation revenue.

As the population ages Australia will need greater revenue if all Australians are to receive adequate support.

In generating any additional revenue, or even maintaining revenue at current levels government should not place greater reliance upon consumption taxes or user charges as such taxes inevitably impact to the greatest extent upon those at the lower income levels.

¹² OECD, 2008, Revenue Statistics*

PERSONAL INCOME TAX

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.

The impact of the tax cuts between 2003 and 2007 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, higher income earning people received much larger benefits, with the highest income earners receiving over \$142 per week tax cuts over the period.

There needs to be greater progressivity in the personal tax system.

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”*.

During that period 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 that as a result those high income earners then paid between 2 cents and 4.5 cents less tax on every dollar than they paid in the year 2000. The greatest savings went to those on an annual income of \$180,000.

In comparison, middle income earners had overall tax savings of about 0.5 per dollar and no change on the 30% rate they paid on any increase in their earnings.¹³

The tax cuts introduced by the current government went some way towards restoring equity to the taxation system.

However the fundamental imbalances and inequities previously present in the system remain.

Consistently over the past decade tax cuts have delivered the greatest benefits to those on the highest incomes.

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

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 reforms 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.

Indexation of thresholds should be considered.

Many low income working families are facing high effective marginal tax rates. NATSEM estimated that in 2006, 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.

¹³ The Sydney Morning Herald, Wednesday, May 15,2007

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.¹⁴

Ten years ago men were more likely to face high EMTRs than women, but this trend has reversed.¹⁵

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.¹⁶

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.

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 analyse the distribution of effective marginal tax rates for Australian employees. The NATSEM data was produced for the 2004-05 financial year.¹⁷

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%.

¹⁴ Trends in effective marginal tax rates 1996-97 to 2006-07, AMP- NATSEM Income and Wealth Report, Issue 14, September,2006,p1.

¹⁵ Trends in effective marginal tax rates 1996-97 to 2006-07, AMP-NATSEM Income and Wealth Report, Issue 14, September, 2006, p1.

¹⁶ AFPC Wage-Setting Decision October 2006,p78

¹⁷ ACTU submission to Australian Fair Pay Commission, July 2006.

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%.

Whilst the exact impact of EMTR's will change as income and tax changes occur, the fundamental problem remains; EMTR's are a major problem in the system.

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%.¹⁸

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.

¹⁸ Mr Nigel Ray, General manager, Tax Analysis Division in Treasury, Committee Bulletin, June 1-15, 2006

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

In our view a consumption tax, by its very nature is regressive. It impacts most heavily upon low income earners, especially those with children.

The SDA does not support any move towards a greater reliance upon consumption taxes.

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.

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

Changes to improve the disposable income of working families are necessary.

According to the National Centre for Social and Economic Modelling, a typical Australian family in 2007 would have paid \$537,000 to raise a child from birth to age 21.¹⁹

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 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.

¹⁹ AMP – NATSEM - AMP Income and Wealth Report, Issue 18, Anne Harding, NATSEM, December 2007.

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 \$162,000.²⁰

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 integration of the taxation and social security systems.

It is imperative that the taxation system guarantee the government sufficient revenue to achieve this and other social goals.

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 alleviate poverty. It can, through national solidarity and fair burden sharing, contribute to human dignity, equity and social justice."*²¹

It should be noted, that by international standards, Australia is a low tax country.²² Consequently the primary goal of any government; to ensure that all of the nation's citizens can have a standard of living sufficient to enable them to live decently with

²⁰ NATSEM-Personal Investor Magazine

²¹ International Labor Organisation, Report of the Committee on Social Security, Conclusions Concerning Social Security, 6 June 2001.

²² Warburton/Henry Tax Review: International comparisons of Australia's Taxes, April, 2006

dignity can not reasonably be impeded by an argument that there is not scope to ensure that the taxation system delivers adequate revenue to achieve this goal.

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.²³

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.²⁴

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.

²³ 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

²⁴ ABS Income Distribution - 6523 - 1999-2000.

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.

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 \$42,559 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 \$94,316 (plus \$3,796 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.

It may well be that today the total number of families receiving family support payments may be higher than ever and the number of families receiving more in payments than they actually pay in tax may be higher than ever, but those facts do not make any valid argument that low income families are receiving sufficient support to enable them to live with dignity and at a fair and reasonable living standard.

It may well be that large families already receive the highest levels of family support payments. That follows logically from the sheer fact of their size. It does not mean they are better off.

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

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 also totally inconsistent policy for the government to means test Family Tax Benefit A and B but to not means test other family support payments such as the Child Care Tax Rebate.

Child care is a critical issue for many parents.

The government has an obligation to ensure that all parents can access formal child care where they need or desire to.

This requires greater financial support to those who need it.

The cost of formal long day care for a child in full time care puts it out of the reach of most low income earners.

Most informal child care is provided free of charge but formal child care is costly. To help parents meet costs, the government provides a level of financial support.

In July 2000, the government introduced the Child Care Benefit which replaced the Childcare Assistance payment and the Child Care Cash Rebate.

This payment is means-tested; to a point.

However, irrespective of the income level, all parents using child care receive some level of government financial support.

For 65% (1,015,300) of children, the weekly cost of child care is less than \$20 (this includes all those children for whom there is no cost associated with their care). For 8% of children the weekly cost is over \$100. ²⁵

In 2006 ACOSS estimated the median gap fees as \$50 per week for long day care, \$27 per week for Family Day Care, \$13 per week for pre school services and \$22 per week for outside school hours care ²⁶

Whilst recognizing that recent changes have made child care funding more progressive, wealthy parents still receive the benefit of the child care tax rebate.

The level of financial support provided for parents by government should be income related.

There should not be an obligation on the public purse to meet in part or in full, the costs of child care for those who are on high incomes.

Child care payments make a significant difference in respect of child care costs.

They do help many families access child care when otherwise they could not afford to.

However, some low income families do not use formal child care because of cost factors. For some parents, child care is not affordable, even with the Child Care Benefit. This is because of “gap” fees which often are very substantial.

Government has a responsibility to ensure that child care is not denied because parents cannot afford it.

The levels of the Child Care Benefit should be increased for those in need.

Further, any introduction of salary sacrifice for child care purposes or any move to extend Fringe Benefits Tax exemption to employer supported child care, would also be inequitable as the greatest beneficiaries would be high income parents.

²⁵ Op Cit

²⁶ ACOSS Info 383, February, 2006

Tax concessions for child care automatically benefit high income earners the most.

There should be no personal tax concessions relating to child care.

Most SDA members do not utilize formal child care because of the impact of cost, supply and choice factors.

Moreover, most parents who do access formal child care, tend to limit their usage of it. Of all children receiving formal care, 47% utilize it for less than 10 hours per week and only 7% utilize it for 35 hours or more in a week and only three per cent of children attend for 45 hours or more each week.

There is a clear relationship between the age of children and whether they are in any sort of formal child care arrangement. The use of formal child care for very young children is low, with only 7% of children less than one year of age receiving such care.

The financial needs of parents who choose not to utilize formal child care need to be addressed.

It is important to recognize, that in most situations, the family will normally be the primary carer and raiser of children.

The current social welfare system is exceedingly complex.

It makes no sense to have different income tests and taper arrangements for different payments unless they are absolutely necessary.

A more integrated payments system which takes into account the need for basic payments plus the additional costs applying to children, those living alone, single parents, remoteness, housing, disability and the like would be a significant step forward.

Consideration should be given to reducing the complexity of the current system by simplifying and integrating payments where possible.

Removal of the distinction between pensions and allowances and the establishment of a common set of eligibility criteria for all payments should be considered.

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\$6,000 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.

Retirement Incomes

Demographic data shows clearly that the Australian population is aging. During the past decade the number of people aged 65 years or more increased from 7.3% to 11.2%.

A significant number of retired people are on low incomes. Many are living in poverty. Long term, this raises two critical issues – the cost of provision of adequate living standards to older Australians, and who will provide the care which will be needed.

Australia's income replacement rates for retirement incomes are not as high as most OECD countries, many of which operate contributory earnings related public pension schemes.²⁷

In this context it makes sound, long-term economic sense for the government to facilitate individuals being able to plan and provide for their own income support beyond their wage earning years.

Adequate superannuation is a crucial component of retirement security.

Government should act to encourage and expand industry superannuation.

As part of such action consideration should be given to the appropriateness of current taxation arrangements on superannuation:

Superannuation is a critical factor in helping many retired people avoid poverty.²⁸ A report released by the CPA in 2001 shows that many Australians, when they retire,

²⁷ Pension Review Background Paper, Dept.o FHCSIA, August 2008,p.16f

will experience a significant drop in living standards if they rely only upon compulsory superannuation.²⁹

Dr. Anne Harding says that without taking the calculation of the value of superannuation into account there has actually been a sharp rise in inequality in the past fifteen years.³⁰

Other research by NATSEM shows that many women face bleak retirements because they lack adequate superannuation. Of those women contemplating retirement by 2010, about 10% will have accumulated less than \$27,300 by the time they retire. This is a significant improvement since 1993 when women's average superannuation was only \$9,647. Nevertheless, it leaves many women vulnerable to poverty in old age. Women who have had interrupted working lives because they stopped work to raise children, are generally the hardest hit.³¹

Currently more than 2 million Australians receive a full or part aged pension. This is expected to soar of the next decade.

The majority of recipients rely on the pension as their main source of income and this will continue to be the case for the foreseeable future.

In terms of delivering further financial support to pensioners through mechanisms such as the aged pension, several factors are worth noting;

- The aged pension is currently indexed in line with CPI movements and benchmarked to 25% of the MTAW, even though there is no evidence this is an appropriate benchmark.³²
- The slow withdrawal rate of the aged pension as private income increases means there is a small but significant group receiving the aged pension who have household income over 1.5% the aged pension rate.³³

²⁸ *Trends in Australian Wealth-New Estimates for the 1990's*, Simon Kelly, Natsem

²⁹ *Superannuation, The Right Balance*, CPA, 2001.

³⁰ Anne Harding, *Australian*, 27/10/03.

³¹ *Women and Superannuation in the 21st Century*, Simon Kelly, NATSEM, 2001)

³² Pension Review Background Paper, Dept. of FHCSIA, August 2008, p 14

³³ Op Cit p 51

- The relaxation of the assets test means that aged pension recipients can have up to \$856,000 plus their own home (of any value).³⁴

On the other hand 26.5% of households relying on income support for more than 90% of their household income are in the bottom wealth decile.³⁵

There is a strong argument to increase the pension level.

The 25% of MTAWA should be reviewed and increased.

The single rate of pension should be lifted to 66% of the combined couple rate.

Any increase in the aged pension above the current benchmark should be applied in a way that delivers greater support to those who need it most.

³⁴ Op Cit

³⁵ Op Cit p 52