

Dr Ken Henry  
Chair  
The Australia's Future Tax System Review Panel  
AFTS Secretariat  
[AFTSubmissions@treasury.gov.au](mailto:AFTSubmissions@treasury.gov.au)

Dear Dr Henry

We are pleased to enclose a submission to the Australia's Future Tax System Review.

This submission is prepared jointly by the NSW Commission for Children and Young People, the WA Commissioner for Children and Young People, the Queensland Commission for Children and Young People and Child Guardian, and the Commissioner for Children, Tasmania. In the other Australian jurisdiction whose Commissioner has a broad mandate to promote children's well-being, the Australian Capital Territory, the former Commissioner endorsed the submission although the newly-appointed acting Commissioner has not yet been able to consider doing so.

We will be placing a copy of the submission on the Commissions' websites. Making work such as this publicly available is one way of demonstrating our accountability to the children and young people in our jurisdictions.

If you require any further information, please contact the NSW Commission for Children and Young People's Manager, Policy, Maj-Britt Engelhardt on 9286 7205 or at [maj-britt.engelhardt@kids.nsw.gov.au](mailto:maj-britt.engelhardt@kids.nsw.gov.au).

Yours sincerely

**Gillian Calvert**  
**Commissioner**  
**(on behalf of the other Commissioners)**  
**October 2008**

**The Tax Review:  
Improving outcomes for children and young  
people**

**Submission to the  
Australia's Future Tax System Review Panel  
2008**

ACT Children and Young People's Commissioner  
NSW Commission for Children and Young People  
Queensland Commission for Children and Young People and Child  
Guardian  
Commissioner for Children Tasmania  
WA Commissioner for Children and Young People

**October 2008**

# Contents

1. Impacts of the tax system on children and young people.....	2
2. Expectations from the Tax Review for children and young people.....	6
3. Potential measures for Commonwealth taxation.....	8
4. Potential measures for State taxation.....	16
5. Commonwealth-State Financial Relations.....	18
6. Summary of Recommendations.....	20
7. References.....	21

# Submission to the Australia's Future Tax System Review Panel 2008

NSW Commission for Children and Young People  
Queensland Commission for Children and Young People and Child  
Guardian  
Commissioner for Children Tasmania  
WA Commissioner for Children and Young People

October 2008

---

## 1. Impacts of the tax system on children and young people

The design of the tax and transfer systems impacts significantly on the distribution of income and opportunity, between different social groups, age groups, and between generations. The overall level of taxation and public expenditure, the level and targeting of transfer payments and the design details of these systems will influence the outcomes for children young people across the Australian community probably much more than any other single factor, given financial difficulty is often a key factor in the development of dysfunctional families and socio-economic circumstances are closely correlated with the life outcomes for children and young people.

The Tax Review provides a fundamental opportunity to redesign these systems and build the future of the Australian society. The design of the tax and transfer systems should recognise that children and young people not developing optimally imposes significant costs on society and limits development of human capital.

There is now a growing body of research and reports that translate research findings into practical policy guidance. A landmark study by Shonkoff and Phillips concluded that nearly all aspects of early human development are shaped by a child's experiences in its early years. Numerous cost-benefit analyses, meta-analyses and longitudinal studies, including those by Karoly and others at the RAND Corporation, by the Nobel Laureate James Heckman, the well known High/Scope Perry Preschool Study, and the work by Reynolds on the Chicago Child-Parent Center (CPC) program all highlight the value of governments supporting positive early childhood experiences. A common theme that emerges from all these studies is that early childhood experiences play a crucial role in laying a foundation for ongoing development.

A recent report from the US, *A Science-Based Framework for Early Childhood Policy: Using Evidence to Improve Outcomes in Learning, Behavior, and Health for Vulnerable Children*, by the Center on the Developing Child at Harvard University integrates advances in neuroscience, developmental psychology, and program evaluation to develop a unified framework to provide evidence-based guidance for policymaking related to early childhood policy.

The key messages are that:

- Early experiences determine whether a child's brain architecture will provide a strong or weak foundation for all future learning, behavior, and health.
- The interaction of genes and experience and the nature of children's relationships with the important adults in their lives shape the architecture of the developing brain.
- Policies that support the ability of parents and providers of early care and education to interact positively with children in stable and stimulating environments help create a solid foundation for later school achievement, economic productivity, and responsible citizenship.
- For children in families experiencing significant adversity, positive outcomes for both parents and children over two years can result from two-generation programs that simultaneously provide direct support for parents and high-quality, centre-based care and education for the children.
- For young children experiencing stress from abuse or neglect, severe maternal depression, parental substance abuse, or family violence, interventions that provide specialised services matched to the problems can prevent the disruption of brain architecture and promote better developmental outcomes.

Another recent report, *The Economics of Early Childhood Policy: What the Dismal Science Has to Say About Investing in Children* by Rebecca Kilburn and Lynn A. Karoly uses human capital theory to provide a simple unifying framework that encompasses many of the disparate threads of current thinking about early childhood policy. Similarly, the key insights are that later skills build on earlier skills; development occurs over multiple stages; human development involves the interaction of nature and nurture, policies that increase the education level of women would be expected to have a positive impact on their children's human capital, programs to support children's human capital development would be more effective if provided in preschool than if they were delayed until after school entry.

After early childhood, another stage in human development that results in rapid change is adolescence. As the work of international and national experts such as Laurence Steinberg and David Bennett has shown, adolescence is a significant developmental period where neurobiological changes are reflected in cognitive, emotional, and ethical development of the adolescent. This is also a period where adolescents are seeking independence from adults while they still continue to depend on them. Thus, both parents and adolescents find this period difficult.

Providing support to parents is a significant component of investing in children and young people. The financial resources parents have impact on their ability to provide for their children and their development. Children and young people who do not have a parent in paid employment may be at risk of experiencing

significant economic disadvantage and stress. Some of the most successful projects, such as the Perry Preschool Project, provided a combination of supports for both children and parents to tackle poverty traps and intergenerational disadvantage. Similarly, most cost-effective youth development programs outlined in the Washington Institute report *Benefits and Costs of Early Intervention Programs for Youth*, such as Guiding Good Choices and Strengthening Families Program for Parents and Youth 10-14, involve supporting both the young person and their parents.

In their report *Supporting Parents' Employment and Children's Development*, Shelley Waters Boots and colleagues outline a “family security” approach that would help parents fulfill their dual roles of income earner and carer effectively. They suggest policies for enabling parents to improve prospects for their children and combine work with child rearing. Among the recommendations are flexible and paid leave policies for working parents, guaranteed child care, and expansion of the early childhood education programs.

Shonkoff and Phillips highlight the negative impacts of parental unemployment on children's development due to the potential to create stress and tension in the relationships between parents and children, and reduce warmth and supportiveness in the home. In relation to maternal employment, they point out that it is the circumstances of the work, such as the income it generates, the proportion of the day the child spends with a security giving caregiver and the overall implications for family functioning determine how maternal employment affects children. They highlight that there is enough evidence that non-standard working hours that make up a major share of the jobs for poor working women appear to pose risks for children.

The research undertaken by Harvard professor Hirokazu Yoshikawa and his colleagues through the New Hope project in Milwaukee explains that different patterns of parental workforce engagement and job flexibility impact differently on children's school performance and behaviour at school.

For example a particular work trajectory examined was characterized by high job instability, that is, a high number of jobs across a relatively short time period, with an average of about six jobs across two years, and with very little wage growth between those jobs. Children of mothers whose work trajectories were characterized by this job instability would experience a lot of stress in the family and disruptions to the daily routine and had lower levels of school performance and higher levels of acting out behaviours as rated by the teachers.

However, a different work trajectory that was characterized by full-time work with wage growth over the period of the two years resulted in increases in children's school performance and reductions in their acting out behaviours.

It appears positive work trajectories increase the parents' educational expectations for their children and if one is able to provide hope to the families

by providing positive work experiences, children's school success can be improved. The New Hope Project aims to move people out of poverty by offering supports, such as income supplements, transportation, and childcare, in exchange for working 30 or more hours per week.

In another study, Wen-Jui Han explores the relationship between maternal shift work and the behavioural outcomes for children aged four to 10, using the National Longitudinal Survey of Youth - Child Supplement dataset. Various subgroups of children based on family type, family income, and mother's occupation and working hours and the patterns of parental work schedules and work hours were studied. Results suggest that maternal shift work may contribute to greater behavioural problems. Of all children whose mothers worked non-day shifts, the strongest associations were found for children who lived in single-mother or low-income families, whose mothers worked in cashier or service occupations, and whose mothers worked non-day shifts full-time.

Young people themselves are also often faced with significant employment and financial challenges. Youth unemployment is around 5% higher than the overall unemployment rate. Also, part-time employment among young people not in full-time education has increasingly become more common. The ratio of teenagers employed part-time and not studying to those employed full-time and not studying rose from 0.37 in 1984 to 0.58 in 2004. This increase was more prominent for school leavers, from 0.36 to 0.86. (ABS, 2005). Unemployment and under-employment, especially in cases where they are long-term, put young people at risk of mental health problems and anti-social behaviour. Stephen Morrell and colleagues, in their analysis of the links between unemployment and young people's health, find that youth unemployment and youth suicide are strongly associated. They also find youth unemployment is associated with psychological symptoms such as depression and loss of confidence and that prevalence of alcohol and drug use is higher in unemployed compared with employed young people.

The labour market is increasingly polarised into high or low skilled jobs, where highly skilled people have far greater opportunities to obtain well-paid and secure work. Full-time participation in education or training is becoming increasingly important for young people to be equipped for a successful transition to work and independence. It is critical that measures such as the Youth Allowance and Higher Education Contribution Scheme (HECS) are structured appropriately for young people to have a successful transition to a satisfying work life.

**Recommendation 1: That the redesign of the tax and transfer payments system be informed by research findings on child, adolescent and youth development.**

## **2. Expectations from the Tax Review for children and young people**

The main Australian government taxes and transfers impacting on children and young people are income taxes, the Family Tax Benefit, child care payments and rebates, allowance payments such as the Newstart Allowance and the Youth Allowance, and other supplementary payments, such as Rent Assistance.

The State transfers mainly consist of tax concessions, with very limited use of direct payments.

While the overall combination of the personal tax and transfer systems is progressive and redistributive, there is still significant scope to improve both systems to get better outcomes for children and young people.

The current tax and transfer systems are separate systems that together determine the disposable income of families and young people, their incentives to work and save, and their investment decisions, including in education and training.

There are many families and young people who receive transfers and pay tax in the same year or over a period of years. Clearly, there is a need for much greater integration of the tax and transfer systems.

Different bases of assessment are used between and within the two systems, including the definition of income, the unit of assessment, the period of assessment and the basis of eligibility.

Different types of payments are taxed differently. Some payments, such as the Newstart Allowance, Youth Allowance, the student payments of Austudy and ABSTUDY, and Parenting Payment are taxed as income, with tax offsets that are designed to ensure the tax liability for maximum rate full-year recipients is zero. Other payments, including Family Tax Benefit, childcare assistance payments, assistance on the birth or adoption of a child (Baby Bonus); a payment to reward and encourage age-appropriate immunisation (Maternity Immunisation Allowance), Carer Payment and Disability Support Pension and most supplementary payments (e.g. Rent Assistance) are not included as income for tax purposes.

These different bases and different forms of treatment of payments have been used largely to achieve a targeted system, but the overall result is that the tax and transfer system as a whole is very complex.

Reducing this complexity could improve the overall efficiency of the system and reduce the administration costs. It can also improve the transparency of the systems which is especially important for the more vulnerable people in society, which include children and young people.

Support by the Australian government is generally targeted to lower income families and individuals through the use of means tests which work on a couple or family basis. The means test generally has two components, an income test and an assets test. Income support is tested on the basis of both income and assets, while family assistance is tested on income only. Entitlement to most other supplementary payments is tied to entitlement to a primary income support payment, concession card or family assistance payment.

While the use of means tests is supported, it is desirable to review the basis and operation of the means tests to remove perverse incentives for female and youth employment and poverty traps.

**Recommendation 2: That the basis and operation of means tests be reviewed to remove perverse incentives for female and youth employment and poverty traps.**

Australia performs well in terms of supporting families and children compared to most OECD countries. However, it doesn't perform as well as the best-performing Northern European states. This is mostly because the system penalises second income earners in couples and because government support for most families following the birth of a child and when children are below school age is relatively limited. The best-performing OECD countries concentrate more of their assistance on the early years through adequate levels of paid maternity leave and much higher levels of support for child care costs. These countries also attempt to encourage greater sharing of leave by fathers.

The key expectations from the tax review from the perspective of children and young people are that the tax and transfer systems assist them to grow and develop positively in supportive families and communities

**Recommendation 3: That the Review meet the needs of younger Australians by designing tax and transfer systems which:**

- **Support families to meet the costs of raising children on an equitable basis, with priority given to low income families**
- **Respect the various choices families make in respect of work and caring for family members**
- **Remove barriers, such as high effective marginal tax rates, for female participation in the workforce**
- **Improve incentives for young people's pathways onto higher education, training and secure employment**
- **Reduce unemployment, especially youth unemployment and long term unemployment**
- **Boost earnings of low income families and young people**

- **Provide easy access for families and young people to the various types of support available to them.**

Given all the research evidence, it is clear that Australia can achieve better outcomes for children and young people through more effective support for paid parental leave, early childhood education and care, parental employment, and youth education, training and employment.

### **3. Potential measures for Commonwealth taxation**

#### **Income Tax**

There should be significant scope to reduce taxes for low and middle-income earners overall, given high income earners have received much more in tax cuts over recent years than low and middle income earners.

Australian personal income tax thresholds are not indexed. As a result, as incomes and costs of living rise over time, a larger share of individual incomes is paid in tax. Failing to account for this threshold creep by not indexing the thresholds, and especially the lower income thresholds, affects low-income groups more in relative terms than those with higher incomes.

**Recommendation 4: That the income thresholds at which the marginal income tax rates change should be indexed to changes in Average Weekly Earnings.**

#### **Business taxes**

There is considerable scope for using the business tax system to increase employment opportunities and workforce engagement for young people. Tax incentives could be considered for businesses that employ at-risk and chronically unemployed young people or participate in youth mentoring programs and increasing youth engagement with work through better wages from increased employer tax incentives for hiring apprentices and trainees.

**Recommendation 5: That tax incentives be:**

- **provided for businesses that employ at-risk and chronically unemployed young people, or participate that in youth mentoring programs**
- **increased for employers hiring apprentices and trainees**

#### **Baby Bonus versus Paid Parental Leave**

The Baby Bonus provides a payment for mothers and is to be income-tested from January 2009. Compared to parental leave, the effective level of benefit provided is low. For example, a payment of \$5,000 paid over six months is equivalent to around \$192 per week, or around 37% of the 2007 Minimum Wage.

Paid maternity leave with a job guarantee increases women's attachment to the labour market when not too long (around 6 months). Longer periods of paid parental leave are particularly attractive to less skilled women and women in less secure employment situations who would subsequently find it most difficult to return to work. On the other hand, allowances such as the Baby Bonus that enable mothers to stop work for a considerable time without job protection can have a negative impact on the course of future employment.

The recent draft report released by the Productivity Commission proposes a paid parental leave scheme designed to:

- increase the length of leave taken around the birth or adoption of a child, and
- encourage female labour force participation before and after the period of parental leave.

The proposal is for leave of 18 weeks at the adult minimum wage (\$544 per week). This leave can be shared by eligible parents, with an additional two weeks of paternity leave reserved for the father (or same sex partner).

Those families not eligible for paid parental leave would be entitled to a maternity allowance (the renamed baby bonus) and other social transfer entitlements.

It is proposed to fold some of the existing family benefits into the paid parental leave. However, to avoid families being disadvantaged by the scheme, families will have the choice of receiving existing family payments and the maternity allowance instead of the proposed parental leave payment.

Payments under the proposed paid parental leave scheme will be taxed and considered when determining eligibility for other government payments. The rationale for this is stated as ensuring low-income earners receive greater benefits than higher income earners and the scheme's effectiveness in having leave taken around the birth or adoption of a child is increased.

The report estimates that the scheme will allow the vast majority of children to be exclusively cared for by their parents for at least the first six months after birth and stimulate lifetime employment rates of women.

It is estimated that the proposal will cost around \$530 million annually in net terms, due to the significant offsets from reduced social welfare payments (including removal of the baby bonus for employed parents using the scheme) and the tax revenue from paid leave.

The report refers to the compelling evidence of child and maternal health and welfare benefits from a parental leave for the primary caregiver of around six months and a reasonable prospect that longer periods (of up to 9–12 months) are beneficial. The reduced costs to society in terms of health costs and other

consequences of poorer outcomes for children and parents and long run productivity benefits of early childhood education are also recognized.

While the Productivity Commission's proposals are a very significant step in bringing Australia into line with most developed nations that have paid parental leave, and having many positive features such as including a broad range of family types, allowing for sharing of parental leave and specific parental leave for the partner of the primary caregiver, they fall short of providing a progressive, contemporary system. Given the recognition of the enormous benefits to society from quality parental care in the first 6-12 months, and the relatively modest costs estimated by the Commission, a longer period of paid parental leave of at least 12 months would seem to be more appropriate. If adequate funding through the federal budget would be difficult to source, the paid maternity/parental leave could be financed through a mixed system of government, employer, and employee contributions as proposed by the National Foundation for Australian Women.

Measures to encourage greater use of parental leave by fathers could be also put in place. For example, bonus payments can be provided to parents who equally share parental leave entitlements, or the duration of paid leave entitlements for fathers can be increased.

**Recommendation 6: That 12 months' paid parental leave be available to all new parents in the workforce.**

**Recommendation 7: That incentives be provided to encourage greater use of parental leave by fathers.**

### **Family Tax Benefits**

The Family Tax Benefits (FTB) system currently favours families with a stay at home spouse, but disadvantages low and middle income families where both partners are working.

The income thresholds at which the full payment begins to be withdrawn for FTB Part A are too low and need to be adjusted.

**Recommendation 8: That the income threshold for withdrawal of Family Tax Benefit Part A be increased.**

The Family Tax Benefit Part B presents a real barrier to women from low income families getting back into the workforce, because access to Part B reduces as soon as the non-working partner, usually the mother, earns quite a small amount of money. In those circumstances, it makes greater financial sense for the single income earner, usually the father, to work longer or take on a second job, rather than the mother seeking some work. Access to Part B should be allowed for higher levels of income of the second earner.

**Recommendation 9: That the second earner income threshold for reduction of Family Tax Benefit Part B be increased.**

In a recent paper, Ann Harding and colleagues have examined two possible FTB-A reform options, both of which involve reducing the income test withdrawal rates associated with the FTB-A income test. Their modelling suggests that the options would be an effective way to reduce high effective marginal tax rates for around 450,000 parents of FTB-A children, would benefit around 850,000 families, and would deliver additional assistance to middle income families living on the outskirts of cities. These options deserve further consideration.

Furthermore, the tax system should make it possible for families to choose to claim regular family payments throughout the year, rather than waiting for an end of tax year rebate. Low-income families are likely to be those in most need of regular income supplementation. Such families may also find it difficult to estimate their annual income accurately and any system that requires estimation of annual income and has the potential to leave families with a debt that must be repaid to the government should be avoided. This places a very real financial burden on those families who can least afford it. Rebates should be available throughout the year based on actual income.

**Recommendation 10: That families be able to choose whether to receive regular family rebates during the year or to wait for a single end of year rebate.**

Another issue that needs to be kept in mind is that the direct costs of children rise with age and especially during adolescence.

**Recommendation 11: That FTB levels be reviewed to reflect the higher costs of raising children during adolescence**

### **Parenting Payment**

Parenting Payment claimants must have a qualifying child aged under age six if the carer is partnered, or under age eight if the carer is single. The carer must enter into an activity agreement to seek and accept suitable part-time work if the youngest child is aged six or more. There are special provisions for individuals that were on Parenting Payment at 30 June 2006. In this case, their youngest child must be aged under 16 and they must enter into an activity agreement with part-time work requirements when their youngest child turns seven or more.

According to ACOSS, more than 70% of single parents on Parenting Payment have a Year 10 level education or less, which means the job opportunities available to them will be limited. Given the research on the negative impacts of unstable job trajectories, shift work and non-standard hours for children's development, particular care needs to be taken not to force single parents into such work trajectories. In order to avoid meaningless churn searching for work and forcing vulnerable single mothers into accepting jobs which leave them struggling to balance their childcare, housing and transportation demands,

focusing more on training, employment support, and transport support might be preferable.

A particular concern is the implications of the requirement for activity agreements for the availability of foster carers, especially for carers who take on short-term placements with short term gaps in between placements. The strict interpretation of the requirement for being “an active registered foster carer” has created a lot of difficulties for short-term foster carers. It may be worthwhile clarifying the requirements and exempting short-term carers from the activity agreement requirement.

**Recommendation 12: That activity agreement requirements for parenting payment are revised to allow for the circumstances of short-term foster carers.**

### **Early Childhood Education and Care**

Families using child care may receive Child Care Benefit (CCB) subject to a family income test. Families with higher incomes (e.g. over \$127, 000 per annum for a single child) no longer receive any Child Care Benefit. Families who are eligible can get up to 24 hours of CCB per child per week for approved care regardless of their work status. Families where both parents or the single parent are working, studying, training or looking for work for at least 15 hours a week are eligible for up to 50 hours of CCB per child per week (\$173.50 for a single child) for approved or registered care. Registered care is care for work related purposes that is provided by grandparents, relatives, friends or nannies who are registered as carers with the Family Assistance Office. Families using registered care are entitled to a maximum of \$29.05 per week (for a maximum of 50 hours).

The Child Care Tax Rebate (CCTR), on the other hand, meets 50 per cent of the out-of-pocket child care expenses for approved care up to a limit of \$7,500 per child per annum. To receive payment, the claimant must have been assessed as eligible for CCB and be working, studying, training or looking for work.

There is also a Fringe Benefits Tax exemption for employer-provided child care.

Child care is a critical issue for many working parents. Early childhood education and care are critical for children’s cognitive and emotional development and, as discussed above, are increasingly recognised as possibly the best investment for human capital formation when children are aged two years or over. The trend worldwide is to integrate child care and early childhood education systems. Currently, in Australia these systems are poorly integrated, though the level of integration varies in different jurisdictions. Preschool is generally viewed as a State responsibility, and arrangements for provision of preschool services vary across the States. The amount of funding devoted to early childhood education and care is also quite

low. Overall, Australia spends less than 60% of the OECD average on child care and pre-school.

The most significant weakness in CCB is that the value of CCB is not linked to the actual cost of providing child care and families have to meet the gap between the CCB entitlement and the fees charged by child care providers. In comparison with other countries, Australian families make a relatively high contribution to the cost of care. Paying these gap fees is particularly difficult for low and middle income families because the lower a family's income, the greater the proportion of disposable income used to pay for child care and the lower the capacity to pay gap fees. Of all family types, sole parents who are not working but who are receiving the Parenting Payment, spend the highest proportion of their disposable income on child care. According to AIHW, in 2004 the cost of child care was almost 14% of disposable income for this group.

The CCTR is also problematic in that it is not of much assistance to low-income families with low or zero income tax liability.

It is essential to have an integrated system of early childhood education and care, to reduce the complexity of the current systems and simplify and integrate payments into a single, adequate benefit payment.

A significant development in this regard is the commitment made by the Australian Government to provide universal access to quality early childhood education, delivered by university qualified early childhood teachers, for a minimum of 15 hours per week, 40 weeks per year in the year before formal schooling by 2013. The Australian Government is working with the States and Territories under the Council of Australian Governments and through the new Commonwealth-State funding relations to implement this commitment. While this is encouraging, there is a strong need to improve the benefit payments system sooner and as part of the tax review, it will be important to remove the artificial divide between Long Day Care and Preschool and make the benefit payment applicable to all forms of early childhood education and care.

**Recommendation 13: That the various benefits for child care be integrated and simplified into a single benefit applicable to all forms of early education and care.**

### **Higher Education Contribution Scheme (HECS)**

HECS puts many low-income young people and their families under pressure and operates as a disincentive for low income students to go on to tertiary education. Many young people, particularly from less affluent and rural areas, find it impossible to afford to undertake full-time study. Others are dissuaded by the fear of starting their careers with large study debts.

The current HECS also provides disincentives for students to complete more expensive and time-consuming degrees compared to less expensive degrees taking shorter times.

This situation is exacerbated by a strong demand from industry for employees with work experience, as well as university qualifications. While cadetships, where students combine work and study, would be a good approach to addressing these needs, the current tax system provides a significant financial disincentive for employers to pay the HECS fees of employees. Under current legislation, employers who pay the HECS fees of student employees incur Fringe Benefits Tax at the top individual marginal rate of 46.5%. This limits the number of employers who are willing to develop cadetship programs.

**Recommendation 14: That the HECS scheme is be redesigned to remove disincentives for low income young people to undertake tertiary studies and to avoid having young people start their full time working life with a substantial debt.**

The commitment by the Australian government, under the National Early Years Workforce Strategy, to pay half the HECS-HELP debts for early childhood education teachers who work in rural and regional areas, Indigenous communities and areas of socio-economic disadvantage for up to five years is also a welcome development. Similar arrangements should be established for young people in other professions who work in rural and regional areas, Indigenous communities and areas of socio-economic disadvantage.

### **Youth Allowances**

Youth Allowance (Student) is for full-time students in secondary or tertiary education or training and full-time Australian apprentices aged 16 to 24 years. The student must be undertaking an approved course of study. Youth Allowance (Other) is for young people aged 16 to 20 not in full-time study who are seeking or preparing for work or temporarily unable to work. While rates for people with children are similar to equivalent Newstart Allowance rates, lower rates are paid to partnered young people without children or living away from home, and young people living at home. Youth Allowance for non-independent young people is paid subject to parental means testing. Youth Allowance for 16-17 year olds is lower than FTB for younger children, which is a clear anomaly as costs of children rise with age.

**Recommendation 15: That the parental income test for Youth Allowance be redesigned to increase the levels of payment for young people and achieve greater parity with Newstart.**

### **Transition to Independent Living Allowance (TILA)**

A once-off TILA of \$1,000 is available to all young people aged between 15 and 25 years who are preparing to, or have exited, State or Territory based

Care and/or care such as Juvenile Justice, Out of Home Care, Aboriginal or Torres Strait Islander kinship care arrangements, or Supported Accommodation services. TILA funds are available to assist a maximum of 2,500 young people each financial year.

Most potential recipients of TILA do not have the support of their immediate family or other support structures that can help with the challenges of independent living. They have already experienced significant disadvantage. To avoid establishing or reinforcing cycles of intergenerational disadvantage, it is crucial these young people are supported adequately in this significant transition point in their lives.

**Recommendation 16: That the Transition to Independent Living Allowance be significantly increased to enable young people to cover the costs of moving, setting up a home, connection to utilities, purchasing a uniform or tools for their first job, textbooks for studying, and so on.**

### **Carer Payments**

A range of payments are available support carers who provide daily care and attention for people with a disability, severe medical condition or who are frail aged. Carer Payments are income support payments for people who are unable to support themselves through participation in the workforce while caring for such people and Carer Allowances are supplementary payments for carers that may be paid on top of Carer Payments.

Some of those carers are young people who are looking after a parent, a sibling, a grandparent, or other relative. At present, these payments and allowances do not recognise the circumstances of young carers, in particular their need to continue in education and skills development.

**Recommendation 17: That Carer payments and allowances recognise the special circumstances and needs of young carers and allow them to pursue further education, training and skills development.**

### **Taxes on ready-to-drink beverages (RTDs).**

RTDs are the most popular alcoholic beverages for 12 - 15 year old drinkers, who are especially vulnerable to the long-term effects of alcohol use. Use of RTDs among young people is increasing, with ABS data showing 60% of female drinkers aged 15 - 17 consumed an RTD in 2007 compared to 14% in 2000.

The growing consumption of “alcopops” among adolescents and increasing concerns with regard to the health of young people has prompted several countries to introduce special taxes. A literature review by Cornelia Metzner and Ludwig Kraus finds, however, that while a clear relationship exists between the quantity of alcohol consumed and alcohol-related negative consequences, evidence of an association between the consumption of

alcohol-related negative consequences is weak. The authors conclude that measures for the reduction of total alcohol consumption rather than beverage-specific measures would be more successful.

### **Supplementary payments**

There is also a range of supplementary payments and assistance. These include Pharmaceutical Allowance, a supplement for people living in remote areas, and assistance for specific costs (such as Utilities Allowance). A number of supplementary payments are also available for additional assistance with the cost of education and training.

Rent Assistance is one of the major supplementary forms of assistance. Those receiving more than the base rate of FTB Part A, pensions or allowances are eligible if they are renting in the private market at rates above a threshold level (the threshold and payments depend on family size). Different taper rates of pensions, allowances and family payments mean that Rent Assistance is reduced by a lower level of private income, and at a faster rate, if it is received with an allowance payment, than if it is received with a pension or FTB Part A.

While a person can only receive one income support payment at any point in time, they can receive multiple supplements. Most supplementary payments are non-taxable.

Since 2000 there has been an increased use of 'one-off' lump sum payments. For example, carers have received lump sum payments of up to \$1,600 in each of the past five budgets. While these payments are useful in terms of providing much needed short term assistance to those in need, the preferred approach would be to ensure adequate levels of on-going support in the longer term rather than short-term fixes.

Support through supplementary payments could also be provided for children with behavioural problems and development disorders, and counselling and education for young people with drug and alcohol problems.

## **4. Potential measures for State taxation**

State Governments use the taxation system also as a policy tool to deliver their policy objectives. The approaches used include exempting certain taxpayers from a tax, applying a lower rate of tax, providing a rebate or deduction to certain taxpayers, or deferring payment to a later date. Information on such measures is generally contained in an annual Tax Expenditure Statement.

The nature of the tax exemptions and methods of estimating their value vary across the States. Considerable judgement is exercised in deciding what

constitutes a tax expenditure and what constitutes a structural feature of the underlying taxation system. Consequently, care needs to be taken when comparing measures across the States.

For example, the tax exemptions used in NSW to support families, children and young people cover:

- Intergenerational rural transfers. An exemption from Transfer Duty is granted for transfers of rural land used for primary production between generations, and between siblings, to facilitate young family members taking over family farms.
- Exemption from Transfer Duty for purchases by charitable and benevolent institutions where the property is to be used for approved purposes
- First home purchase mortgage under First Home Plus/First Home Plus One. Those financing a first home purchase eligible under the First Home Plus Scheme are exempt from mortgage duty up to certain loan values, phasing out as the mortgage value increases. From 1 May 2007, duty concessions are also provided to eligible first home buyers taking part in shared equity arrangements in proportion to their share of equity in the home.
- All vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations are exempt from Motor Vehicle Registration duty
- An exemption from payroll tax is granted for remuneration paid by a non-profit organisation having wholly charitable, benevolent, philanthropic or patriotic purpose/s to a person while engaged exclusively in work of a kind ordinarily performed in connection with a charitable, benevolent, philanthropic or patriotic nature.
- From 1 July 2008, the wages and salaries paid to apprentices and new entrant trainees are subject to full rebate. (Prior to 1 July 2008, wages paid to apprentices and new entrant trainees in NSW were exempt from payroll tax)
- From 1 July 2007, an exemption from payroll tax is provided for maternity leave payments for a period of up to 14 weeks
- An exemption from land tax is granted for land used as a residential child care centre licensed under the *Children (Care and Protection) Act 1987* or a school registered under the *Education Act 1900*.
- An exemption from land tax is provided for land owned by or in a trust for a charitable or educational institution if the institution is carried on solely for charitable or educational purposes and not for pecuniary profit.

Queensland has similar provisions including:

- Exemptions for a number of organisations from payroll tax under Section 14 of the *Pay-roll Tax Act 1971*
- A number of land tax exemptions granted under Section 13 of the *Land Tax Act 1915* to eligible organizations such as public benevolent institutions, religious institutions and other exempt charitable institutions.
- A concessional rate of duty for purchases of a principal place of residence and where a purchaser has not previously owned a residence in Queensland or elsewhere, a more generous concession on duty.

All other jurisdictions have a similar range of provisions.

While these measures provide considerable assistance to the low-income families, children and young people, they are problematic from transparency and ongoing appropriateness perspectives. They are less visible than other direct expenditures and are not subject to the same scrutiny that direct expenditures are subjected to by Agencies, Treasuries and the Government through the budget process.

As discussed in NSW IPART's recent report on its Review of State Taxation, there are limited incentives to ensure that tax-expenditure programs are working as they were intended to. Once a tax expenditure is introduced, it usually remains in place indefinitely, even if the original objectives for its introduction are no longer relevant. In contrast, government agencies are required to review the effectiveness and relevance of their direct spending programs regularly. As a result, tax expenditures can become expensive, poorly targeted and outmoded subsidy programs with little oversight and review. Therefore, it is important that tax expenditures are reviewed regularly and on a comparable basis with other government expenditures, to ensure that they continue to reflect the government's policy priorities and free up resources that can be much better targeted for effective services for children and families.

**Recommendation 18: That tax expenditures be reviewed regularly and on a comparable basis with other government expenditures, to ensure that they continue to reflect the government's policy priorities.**

## **5. Commonwealth-State Financial Relations**

The Commonwealth-State Financial Relations are governed by complex arrangements and the recent commitment by the Australian Government to reform these arrangements is a very welcome development.

The Commonwealth government controls some of the broadest tax bases, including income tax, excise and customs duty, and the Goods and Services Tax (GST). These taxes enable the Commonwealth to raise more than 80 per cent of the total tax revenue collected in Australia. The States and Territories, on the other hand, employ a large number of small and relatively narrow based taxes, such as payroll tax, land tax, gambling taxes, stamp duties mainly related to the purchase of property and insurance, and environmental levies.

This means that while the Commonwealth raises revenue far in excess of its spending responsibilities, States raise only a small part of the revenue required to meet their spending responsibilities. Furthermore, the taxes assigned to the Commonwealth, especially the income tax, tend to grow in line with growth in the economy, while most of the taxes the States rely on,

especially the transfer duty, are subject to wide fluctuations driven by property market cycles. Consequently, the States depend on Commonwealth grants to fund most of their revenue responsibilities. To address the mismatch between the respective tax bases and spending responsibilities, referred to as vertical fiscal imbalance (VFI), the Commonwealth transfers some of the tax revenue it collects to the States. This is done through a complex system of horizontal fiscal equalisation (HFE), to enable each State and Territory to provide the same standard of services.

There are a number of concerns regarding these inter-governmental transfer arrangements. These include the potential for weakened accountability to taxpayers for spending decisions; duplication and overlap in the provision of services; and reduced incentives for tax reform.

Significant portions of the funding are provided to the States through Specific Purpose Payments (SPPs), for specific recurrent and capital purposes. The level and conditions of SPP funding have been ongoing issues between the Commonwealth and the States. This has led to cost -shifting and finger pointing between different levels of government, fragmentation of decision-making, and duplication and gaps in service provision.

The recent reform initiatives including reforms to rationalise the number of SPPs by combining them into a smaller number of new national SPP agreements are encouraging developments. Reforms will see a reduction from the current 92 SPPs to five or six new national agreements for delivery of core government services such as health, affordable housing, early childhood and schools, vocational education and training, and disability services. This will enable the States to use SPPs more efficiently, reduce overlaps and improve accountability to the community. However, while guaranteeing no reduction in total Commonwealth funding for these activities is a welcome first step, there needs to be a commitment to a thorough review of the adequacy of the funding levels for those essential services and the required adjustments to funding levels to be made as well.

The complexity of the HFE methodology needs to be reduced and an efficient and transparent process for equalisation needs to be adopted. There is no evidence that the complex and data-intensive nature of the Commonwealth Grants Commission's processes have delivered better outcomes than the simpler and more transparent arrangements used by other developed federations.

**Recommendation 19: That Horizontal Fiscal Equalisation methodology be simplified and an efficient and transparent process for equalisation be adopted.**

The Commonwealth Grants Commission is undertaking a review of the methodology used to calculate State revenue sharing relativities, which is due in 2010. It would be desirable that this review is informed of the deliberations and findings of the Tax review, and put adequate focus on the efficiency and

transparency of the current intergovernmental transfers system. It is equally desirable that the Tax Review considers the issues associated with the Commonwealth-State Financial relations in reviewing and improving the Australian taxation and transfer payments systems.

**Recommendation 20: That the tax Review consider Commonwealth-State Financial relations issues in making its recommendations.**

## **6. Summary of Recommendations**

1. That the redesign of the tax and transfer payments system be informed by research findings on child, adolescent and youth development.
2. That the basis and operation of means tests be reviewed to remove perverse incentives for female and youth employment and poverty traps.
3. That the Review meet the needs of younger Australians by designing tax and transfer systems which:
  - Support families to meet the costs of raising children on an equitable basis, with priority given to low income families
  - Respect the various choices families make in respect of work and caring for family members
  - Remove barriers, such as high effective marginal tax rates, for female participation in the workforce
  - Improve incentives for young people's pathways onto higher education, training and secure employment
  - Reduce unemployment, especially youth unemployment and long term unemployment
  - Boost earnings of low income families and young people
  - Provide easy access for families and young people to the various types of support available to them.
4. That the income thresholds at which the marginal income tax rates change should be indexed to changes in Average Weekly Earnings.
5. That tax incentives be:
  - provided for businesses that employ at-risk and chronically unemployed young people, or participate that in youth mentoring programs
  - increased for employers hiring apprentices and trainees
6. That 12 months' paid parental leave be available to all new parents in the workforce.
7. That incentives be provided to encourage greater use of parental leave by fathers.

8. That the income threshold for withdrawal of Family Tax Benefit Part A be increased.
9. That the second earner income threshold for reduction of Family Tax Benefit Part B be increased.
10. That families be able to choose whether to receive regular family rebates during the year or to wait for a single end of year rebate.
11. That FTB levels be reviewed to reflect the higher costs of raising children during adolescence
12. That activity agreement requirements for parenting payment are revised to allow for the circumstances of short-term foster carers.
13. That the various benefits for child care be integrated and simplified into a single benefit applicable to all forms of early education and care.
14. That the HECS scheme is be redesigned to remove disincentives for low income young people to undertake tertiary studies and to avoid having young people start their full time working life with a substantial debt.
15. That the parental income test for Youth Allowance be redesigned to increase the levels of payment for young people and achieve greater parity with Newstart.
16. That the Transition to Independent Living Allowance be significantly increased to enable young people to cover the costs of moving, setting up a home, connection to utilities, purchasing a uniform or tools for their first job, textbooks for studying, and so on.
17. That Carer payments and allowances recognise the special circumstances and needs of young carers and allow them to pursue further education, training and skills development.
18. That tax expenditures be reviewed regularly and on a comparable basis with other government expenditures, to ensure that they continue to reflect the government's policy priorities.
19. That Horizontal Fiscal Equalisation methodology be simplified and an efficient and transparent process for equalisation be adopted.
20. That the Tax Review consider Commonwealth-State Financial relations issues in making its recommendations.

## 7. References

ABS 4102.0 - Australian Social Trends, 2005.

AIHW *Australia's Welfare* 2005, Canberra, 2005.

Aos, Steve, Roxanne Lieb, Jim Mayfield, Marna Miller, Annie Pennucci.  
*Benefits and costs of prevention and early intervention programs for youth.*  
Olympia: Washington State Institute for Public Policy, 2004.  
<http://www.wsipp.wa.gov/rptfiles/04-07-3901.pdf>

Bennett, David, Adolescent development and risk taking, The Children's hospital at Westmead, YAPrap, 2007.  
<http://www.yapa.org.au/youth/facts/devrisk.php>

Center on the Developing Child at Harvard University, National Forum on Early Childhood Program Evaluation, and National Scientific Council on the Developing Child, *A Science-Based Framework for Early Childhood Policy: Using Evidence to Improve Outcomes in Learning, Behavior, and Health for Vulnerable Children*, Cambridge, Mass.: Center on the Developing Child, Harvard University, 2007. <http://www.developingchild.harvard.edu>

Currie, Janet, and Enrico Moretti, *Mother's Education and the Intergenerational Transmission of Human Capital: Evidence from College Openings*, Quarterly Journal of Economics, Vol. 118, No. 4, November 1, 2003.

Han, Wen-Jui. *Shift work and child behavioral outcomes*, Work, Employment & Society, Vol. 22, No. 1, 2008.

Harding, Ann, Quoc Ngu Vu, Robert Tanton and Yogi Vidyattama, *Improving work incentives for mothers: the national and geographic impact of liberalising the Family Tax Benefit income test*, Paper presented at the 37th Australian Conference of Economists, Gold Coast, 2008

Heckman, James J. *The Economics, Technology, and Neuroscience of Human Capability Formation*, Cambridge, Mass.: National Bureau of Economic Research, working paper 13195, May 2007.  
<http://www.nber.org/papers/w13195>

Hirokazu Yoshikawa *Making it Work: Low-Wage Employment, Family Life, and Child Development* (editor, with T. S. Weisner and E. Lowe, Russell Sage Foundation, 2006).

Karoly, Lynn A., and James H. Bigelow, *The Economics of Investing in Universal Preschool Education in California*, Santa Monica, Calif.: RAND Corporation, MG-349-PF, 2005.

<http://www.rand.org/pubs/monographs/MG349/>

Karoly, Lynn A., Peter W. Greenwood, Susan S. Everingham, Jill Hoube, M. Rebecca Kilburn, C. Peter Rydell, Matthew Sanders, and James Chiesa, *Investing in Our Children: What We Know and Don't Know About the Costs and Benefits of Early Childhood Interventions*, Santa Monica, Calif.: RAND Corporation, MR-898-TCWF, 1998.

[http://www.rand.org/pubs/monograph\\_reports/MR898/](http://www.rand.org/pubs/monograph_reports/MR898/)

Karoly, Lynn A., M. Rebecca Kilburn, James H. Bigelow, Jonathan P. Caulkins, and Jill S. Cannon, *Assessing Costs and Benefits of Early Childhood Intervention Programs: Overview and Applications to the Starting Early, Starting Smart Program*, Santa Monica, Calif.: RAND Corporation, MR-1336-CFP, 2001. [http://www.rand.org/pubs/monograph\\_reports/MR1336/](http://www.rand.org/pubs/monograph_reports/MR1336/)

Karoly, Lynn A., M. Rebecca Kilburn, and Jill S. Cannon, *Early Childhood Interventions: Proven Results, Future Promise*, Santa Monica, Calif.: RAND Corporation, MG-341-PNC, 2005.

<http://www.rand.org/pubs/monographs/MG341/>

Kilburn, Rebecca M. and Lynn A. Karoly, *Economics of Early Childhood Policy: What the Dismal Science Has to Say About Investing in Children*, RAND Corporation, OP-227-CFP,

Lerner, Richard M. *Promoting Positive Youth Development: Theoretical And Empirical Bases*, Institute for Applied Research in Youth Development, Tufts University. White paper prepared for: Workshop on the Science of Adolescent Health and Development, National Research Council, Washington, DC. National Academy of Sciences, 2005.

Metzner, Cornelia and Ludwig Kraus, *The Impact of Alcopops on Adolescent Drinking: A Literature Review*, Alcohol and Alcoholism, 2007 (E-pub ahead of print)

Morrell, Stephen, Richard J. Taylor and Charles B. Kerr, *Unemployment and young people's health*. The Medical Journal of Australia, 1998.

<http://www.mja.com.au/public/issues/mar2/morrell/morrell.html>

NFAW Submission to the Inquiry into Paid Maternity, Paternity and Parental Leave, <http://www.nfaw.org/assets/NFAW-submission.pdf>

NSW Treasury, Budget Paper 2, 2008-09 Budget Statement

[http://www.treasury.nsw.gov.au/bp08-09/bp2/2008-09\\_budget\\_paper\\_2](http://www.treasury.nsw.gov.au/bp08-09/bp2/2008-09_budget_paper_2)

Queensland Treasury, Budget Paper 2 - Budget Strategy and Outlook  
<http://www.budget.qld.gov.au/budget-papers/2008-09/bp2-appendix-a-2008-09.pdf>

Reynolds, Arthur J., *Success in Early Intervention: The Chicago Child-Parent Centers*, Lincoln, Neb.: University of Nebraska Press, 2000.

Shonkoff, Jack P., and Deborah A. Phillips, eds., *From Neurons to Neighborhoods: The Science of Early Child Development*, Washington, D.C.: National Academy Press, 2000. <http://www.nap.edu/catalog/9824.html>

Waters Boots, Shelley, Jennifer Ehrle Macomber, Anna Danziger Family Security: Supporting Parents' Employment and Children's Development, Urban Institute, 2008.

[http://www.urban.org/UploadedPDF/411718\\_parent\\_employment.pdf](http://www.urban.org/UploadedPDF/411718_parent_employment.pdf)