

# Council of Single Mothers and their Children

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25<sup>th</sup> October 2008

Dear Secretariat,

Re: Australia's Future Taxation System

Please find enclosed a submission to the review regarding *Australia's Future Taxation System* from the Council of Single Mothers and their Children, Victoria.

The Council of Single Mothers and their Children (Vic) is a community-based organisation that has provided support, information and financial aid to single mothers and their families in Victoria for nearly 40 years. Our telephone information and support service handles an average of 20 calls a day, and we have a membership of approximately 2,000 single mothers and 120 organisations.

The Council of Single Mothers and their Children (CSMC), along with sister organisations in other states and the National Council of Single Mothers and their Children (NCSMC), is well recognised as a source of expert advice on issues of relevance to single mothers. Our expertise is grounded in the concerns expressed to us by single mothers calling our telephone contact line, putting us in an ideal position to respond to this review on behalf of these callers. Individuals, academic institutions, community support/welfare organisations, government departments and members of parliament are some of the bodies seeking our expertise.

This submission has been informed by the experiences of the single mothers who contact CSMC, and the manner in which aspects of the current tax and transfer system impact on them and the wellbeing of their children. Thank you for the opportunity to contribute to the discussions on this important issue.

If you would like further information relating to this submission or the work of CSMC, please contact us on (03) 9654 0327.

Yours sincerely

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## Australia's Future Taxation System

*"There just doesn't seem to be any way I can get ahead. I've always worked, part time so that I can look after my kids, but the way things are set up I feel like I'm always running to keep up. I lose so much of Newstart payment when I work it's ridiculous. It's like everything is designed to make things harder for single mothers. In the end it's the kids that miss out. I'm always stressed and tired; I can't take them to friends because I have to work; and despite all this effort I'm no better off financially, so they still miss out on the things other kids do."*

*Single mother of two primary school aged children*

This submission is based on the experiences of the single mothers who contact the Council of Single Mothers and their Children. Legislation introduced by the previous government has made life more difficult for many single mothers, and places their children at increased risk of poverty and deprivation. The Australian system of taxes and transfers has traditionally had many positive qualities, in particular recognizing the importance of parenting and supporting families through a social wage. Changes in recent years that have overridden these principles need to be reversed, and the principles of support, equity and redistribution need to be enshrined in policy and action.

CSMC believes that the tax and transfer system should provide a basis from which all Australians can fulfill their potential. The transfer system should not be seen only as a last resort safety net, rather as a system that provides support for those in need, while also providing encouragement and incentive to participate in all aspects of community life, including entering paid employment. At the same time it should acknowledge and compensate parents for the vital role they undertake in raising the future generations of Australians. In recent years a disturbing trend has seen the vital role of parenting being pushed to a back seat in favour of "workforce participation" at any costs for people on low incomes (the same does not apply to those outside the income support system).

CSMC agrees with the many other organizations and commentators who argue that the parenting responsibilities of single mothers need to be given greater recognition and validation, to ensure children receive the care they need. Significant changes to the taxation and transfer system are needed to achieve this.

CSMC is concerned that Parenting Payment Single (PPS) was excluded from the payments considered in the Pension Review, and argue strongly that eligibility for PPS (and corresponding entitlements) must be returned to, at minimum, the levels existing prior to the introduction of Welfare to Work.

As described below, single parents are one of the most disadvantaged groups in Australia. The current system of transfers and taxation has unfortunately contributed to this situation, and

changes in recent years, most notably the introduction of Welfare to Work legislation, has only exacerbated this situation.

### Single mothers today

22% of Australian families with children who are school age or younger, or 500,000 families, are headed by single parents. 87% of these are headed by single mothers (ABS 2007). Single mother headed families are the most disadvantaged family type in Australia (ABS 2007). In 2003-2004, single mother families had an average income of \$364 a week (ABS 2007), putting them at or below the poverty line at that period of time (MIAESR, 2004)

Despite the prevalent myths claiming that single mother do not work, single mothers traditionally have the highest level of workforce participation of any group in receipt of Centrelink income support. Their workforce participation is not dissimilar to that of partnered mothers (see table below). For those who aren't in the workforce it is a result of numerous barriers, rather than a lack of willingness or motivation.

*Percentage of single and partnered mothers in paid work in 2007 (ABS 2007).*

	Full time work	Part time work
Partnered mothers	24.4%	39%
Single mothers	19.2%	32%

Single mother headed families are also more likely to live in rental housing, public or private, than the population in general (ABS 2007).

While the majority of Australian families have one and a half incomes to raise their families on, single mothers raise their families on one part-time (often low) wage and are generally reliant on some degree of income support and child support as a 'top-up'. They are acutely aware of issues and difficulties associated with the current system. Some of these are outlined below.

#### 1. Effective Marginal Tax Rates

Single parents face rapid withdrawal of income support payments and benefits as their level of income from other sources, such as wages and salaries and child support, increases. As a result, single parents face extraordinarily high Effective Marginal Tax Rates which all but negate any financial gains made by paid employment.

## 1.1 Income support

Single mothers receiving a combination of income support and private income from work face extremely high withdrawal rates of payments, creating Effective Marginal Tax Rates (EMTRs) way in excess of any that are faced by other members of the community.

Under Parenting Payment Single payments are withdrawn at the rate of 40 cents for each dollar earned over when income reaches \$162.60 per fortnight (Centrelink 2008). For single mothers on Newstart Allowance payments are withdrawn at the rate of 50 cents in the dollar for income earned between \$62 per fortnight and \$250 per fortnight. If they earn more than \$250 per fortnight payments are withdrawn at the rate of 60 cents in the dollar. Newstart payments cease when private income reaches \$903.34 per fortnight; for those on Parenting Payment Single, payments cease when other income reaches \$1582.35 per fortnight for a single parent with one child (Centrelink 2008).

Single parents, those parents raising children on their own, are therefore facing Effective Marginal Tax Rates of between 40 and 60 per cent. This needs to be compared with the tax rates for individuals. Individuals earning between 80,000 and 180,000 per annum are subject to marginal tax rates of 40 per cent. The top tax rate of 45 per cent is imposed on those earning above 180,000 per annum (Australian Treasury 2008). With the average income of single mothers being less than \$20,000 per annum, which in the taxation system would be subject to a tax rate of 15 per cent, there are clearly vast inequities. Why should some of the poorest families in Australia be subjected to Effective Marginal Tax Rates that not even the wealthiest citizens come anywhere near to facing?

Research by NATSEM has demonstrated that single parents are the family type most likely to face high EMTRs (NATSEM 2006:16). The proportion of single parents facing EMTRs of 50 percent or more *tripled* in the years between 1996-97 and 2006-07, with almost one in five single parents losing *more than half* of their next dollar of income. These figures reflect a period prior to the full introduction of the Welfare to Work legislation, which forced single parents onto Newstart Allowance instead of Parenting Payment Single. We can only surmise that the proportions of single parents experiencing EMTRs over 50 percent would be even greater now, as the introduction of Welfare to Work subjecting single parents to the harsher payment withdrawals of the Newstart Allowance.

High Effective Marginal Tax Rates do not include the other costs of finding and maintaining paid work. Women incur costs of child care (if it can be found); before and/or after school care; travel; work clothes or uniforms; for training; rises in public housing rents; loss of pension card and subsequent rises in costs of public transport, car registration, council rates and the like. When these costs are added to the EMTR and the additional pressure and stress of balancing work and parenting, the benefits of paid work can be difficult to identify.

The Howard government chose to address this by applying harsh, punitive sanctions on income support recipients to force them into work even if this was to the detriment of their children. However, from our many conversations with single mothers we know with certainty that single mothers want to work.

As demonstrated above many single mothers do work, and for those that don't they are actively and voluntarily undertaking activities to find work, including education and training, job search activities and volunteer experience. For those not in paid work it is not their level of willingness or motivation that prevents them, rather the numerous barriers to doing so, including:

- A lack of family friendly part time work that allows them to meet their parenting responsibilities, particular jobs that are during school hours and allow parents to care for children when they are unwell, have curriculum days from school or during the 12 weeks of school holidays each year;
- Specific health or disability needs of themselves or their children;
- Lack of availability of child care and/or out of school hours care, and the cost of such care; and
- The greater responsibilities and reduced flexibility associated with parenting alone.

Women who raised their children whilst on Parenting Payment Single regularly talk about the level of security this payment provided – they were actually more able to take on paid employment, particularly casual jobs, as PPS provided them with a psychological safety net – they knew that if for some reason the job did not work out, or was not able to accommodate the parenting needs of the children, that there was something to fall back on.

CSMC recommends that:

- Ideally the Welfare to Work legislation that moved single parents off Parenting Payment Single once their child is of school age be revoked, and single parents be entitled to remain on Parenting Payment Single until their youngest child turns 18 years of age or finishes secondary school, whichever is latest, in recognition of the caring responsibilities attendant with raising children of all ages.
- These extra ordinarily high Effective Marginal Tax Rates be addressed, and brought into line with the tax rates faced by other tax payers,
- Single parents should be entitled to the same free area of earnings as other pension recipients (currently \$162.50 per fortnight) to recognise the increased costs associated with raising children.
- Payment withdrawal rates beyond this level should be set at 15 per cent, the same as the tax rate applying to all low income earners (between \$6,001 - \$34,000 from 1<sup>st</sup> July 2008)

## 1.2 Family Tax Benefit

The Maintenance Income Test (MIT) for Family Tax Benefit A dictates that any Child Support received over \$24.85 per week (Centrelink, 2008:3) reduces the amount of Family Tax Benefit A payable by 50 cents in the dollar.

The Ministerial Taskforce on Child Support (2005) clearly stated that “The Maintenance Income Test (MIT), which dictates how much child support is taken by the Government to recoup some of its expenditure on FTB for the resident parent, is poorly aligned with government policy on support for families. The consequence of the MIT is that many separated parents receive less FTB A than they would if they were living together” (p 14).

It went on to recommend (Recommendation 9.3) that “The MIT’s free area, taper rate and scope should be reviewed in order to ensure that the operation of the MIT does not claw back FTB A beyond the level paid to equivalent intact families.” (p22 Summary and Recommendations).

Unfortunately this recommendation has still not been implemented and the effective benefit of child support received to contribute to the care and raising of children is still being eroded.

Under the new Child Support Scheme, if the care of children is shared by at least 35%/65%, Family Tax Benefit is shared between the parents at the same rate of care. While this recognises that both parents incur costs in caring for children, the outcome is that it further reduces the income of single parents, while there is no significant corresponding reduction in costs. Many single mothers describe to CSMC the struggles they face when agreed levels of care obligations are not met by their ex-partner, leaving them to meet the costs of the children, but not receiving a share of Family Tax Benefit that reflects reality. However, trying to change the nominal level of care rates to better match reality is an Herculean task.

CSMC recommends that:

- The Maintenance Income Test is immediately reviewed to allow single mothers to keep the full value of child support paid in respect of their children.
- Processes to ensure that care percentages reflect reality be simplified.

## 1.3 Youth Allowance

When a child turns 16 there can be significant changes to eligibility for assistance. Most notably, the child is entitled to claim Youth Allowance, which in turn means the parent may no longer be entitled to Family Tax Benefit. Rent Assistance is not payable to young people receiving Youth Allowance at the ‘at home’ rate, so the level of Rent Assistance payments may also be affected.

Although older and more independent at this age, many young people need additional support and time from their parents. For young people at school the costs, even in public education, can be very high, particularly the need for information technology equipment and text books. At CSMC this is demonstrated in January each year by the increasing number of requests for assistance to meet the costs of children returning to school.

Single mothers with children of this age are often in the 40-55 age range. There is considerable research showing this age group faces employment discrimination due to their age. These sole parent families with older children, who are unable or cannot get sufficient paid work, are really struggling and their children simply do not have the same opportunities as other Australians. For those who do work once their income is over \$31,400 (Centrelink, 2008:15), their child's youth allowance rate will reduce if they live at home or are unable to establish a good reason for not living at home.

Clearly given these families' high financial costs and the importance of providing adequate support for young people to maintain school participation and avoid intergenerational poverty, changes are needed to simplify the system and remove further high Effective Marginal Tax Rates.

CSMC recommends that:

- as per recommendation above, that Parenting Payment Single be reintroduced for parents until their youngest child turns 18 or completes secondary schooling, whichever is later; and
- Rent assistance be available to young people who live at home who are receiving Centrelink payments.

## 2. Lack of Recognition of the costs of raising children.

Single parents are raising their children, Australia's next generation of citizens, workers and decision makers, on much lower incomes than other families. While many Australian families consist of one full time income earner, and one part time income earner, single parents most often are raising children on the equivalent of half an income (less if dependant on income support). However, many of the support systems are based on erroneous assumptions about the costs of raising children, or do not acknowledge them.

For single parents on Newstart allowance there is little recognition of the costs of raising children. Payments start to reduce as soon as private income exceeds \$62 per fortnight – the same level for single parents applies to couple families or recipients without dependant children. While single parents have to meet the costs of raising children, without another income earner to share them with, payments are withdrawn almost as soon as a parent commences work. The 'with child' rate of Newstart allowance is less than \$20 more than the basic rate, and does not increase with then

number of dependent children. It is outrageous to suggest that raising even one child, let alone several would make a difference of only \$20 per week.

Child Support and Family Tax Benefit systems, while geared to assisting with the costs of raising children, do not recognise the increased costs associated with raising children in *two* households. Where children spend time with both parents there are costs of running two households able to care for and support children. Both households need to have bedrooms for their children, both need to provide clothes, toys, activities, along with meeting utility costs etc. Transport costs are often greater than for couple families as children are transported between their homes. Despite these obvious additional costs Child Support and Family Tax Benefit systems fail to incorporate them.

The calculations of 'costs of children' used in the Child Support system are based on the costs associated with raising children in couple families. Likewise Family Tax Benefit is shared between the two households according to the level of care, but there is no allowance made for the greater costs associated with raising children in two households.

Treating a single parent family in the same manner as couples raising children (by failing to recognise the reduced capacity for increased income); and as working age income support recipients that don't have dependents (with the allowable earned income for single parents under Newstart being the same as for recipients without children) ignores the responsibilities associated with raising children.

CSMC recommends that:

- as per recommendation above, that Parenting Payment Single be reintroduced for parents until their youngest child turns 18 or completes secondary schooling, whichever is later,
- That single parents on Newstart Allowance be able to earn greater private income before their payments reduce, at a rate equivalent to that allowed under Parenting Payment Single.
- The Child Support formula and Family Tax Benefit be based on the real costs of raising children in two households, and it be this higher amount that is apportioned between the parents depending on care levels.

### 3. System Complexity

In order to gain these entitlements, single parents must negotiate numerous systems, all with different criteria and definitions. Parenting Payment Single, Newstart Allowance, Family Tax Benefit A and B, Rent Assistance and Youth Allowance; Child Support; state government concessions; all have various definitions of income, ages levels, taper rates, rates of payments, income free areas, calculations of rates of care etc. This is before she starts to complete her tax



return! Combined with family law proceedings; the stresses of constantly negotiating with an ex-partner; dealing with the consequences of experiences of violence; and the many frustrations and barriers involved with dealing with bureaucracies such as Centrelink, Child Support Agency and employment service providers; and a single parent already has a time consuming job just negotiating systems.

The complex, overlapping and often inconsistent requirements of these bureaucratic systems mean that what little money is earned by, or provided to, single mother-headed families is soon eroded. The ages of children, shared care rates, child support fluctuations and income are all monitored and tested by the government, functioning effectively to keep these families' incomes on the poverty line.

CSMC recommends that:

- Systems are simplified to ensure greater consistency and ease of use

## References

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