

**Submission
to
AFTS Secretariat,
The Treasury,
Langdon Crescent,
PARKES, ACT 2600.**

**“Australia’s future tax system”
REVIEW**

Presented by;

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List of contents

<u>Ref. No;</u>	<u>Page no;</u>
Perspective	1
3.2 Improvements to the tax and transfer payments system	2 - 3
4.1 Appropriate incentives for workplace participation	2 - 3
3.6 The proposed emissions trading system	4
4.1 Enhancing social and economic wellbeing through incentives for workforce participation and skills formation ...	4 - 5
Promoting participation through improved services	5
Promoting participation through skills formation	6
Increasing participation by older workers and people living with a disability	6
4.2 Incentives for individuals to save and provide for their future	7- 8
5 The announced aspirational income tax goals	9
9 Consideration of all taxation expenditure.....	10 - 11
Summary of recommendations	11 - 12
Concluding remarks and signature	13

Perspective;

The content of this submission is drawn from personal engagement with the social security system through unemployment and as a Disability Support Pensioner. The following information is a summary of my situation and experiences.

I am age sixty one, my wife will reach pension age at the end of this year. I was very long term unemployment until accumulated work related injuries and a new diagnosis compounded to reduce my capacity and options for employment. I was granted a Disability Support Pension in May 2004.

As a DSP I have remained registered with a Disability Employment Network service provider for assistance to secure part time work of 15 to 20 hours per week. I have continued the voluntary work performed during my long period out of the paid work force although I have reduced the time from three days to one day per week.

We have long since been unable to afford the cost of private medical insurance, a car, holidays, entertainment or dining out. The rising prices of basic food items and essential services are eroding our quality of life and often forces odious decisions on what to go without. Paid employment would improve our situation. Despite my concerted efforts and support from my DEN provider, I remain unemployed.

The government has a Budget surplus of around \$22 billion at it's disposal.

It is our hope that this Review will act as a catalyst to convince government to raise the level of the Age and Disability Pensions and Carer Payment, increase the rewards from work, provide more effective programs to secure and retain paid employment, introduce allowances and concessions that would improve the financial circumstances and security of seniors, carers and people with a disability.

This submission is presented as a private individual and not on behalf of any organization, lobby group and does not seek to support or oppose any political party. Terms of Reference points are quoted to indicate the issues addressed by this submission.

(3.2) Improvements to the tax and transfer payments system.

(4.1) Appropriate incentives for workforce participation.

The former and current governments have addressed the apparent labour shortage by appealing to older Australians to defer retirement; age pensioners, single parents and single parents to participate in some level of employment. Currently, 4% of Age Pensioners and 12% of Disability Pensioners undertake paid employment, (*Pension Review Background Paper, Aug 2008*).

This low level of participation is not due to a lack of initiative, skills or motivation by the vast majority of the two groups. They do not require, or deserve the current coercive policies to force them into work. The punitive regime worsens their financial situation and overall quality of life with or without paid work.

Many reports and surveys confirm that discrimination against older workers and people with a disability is wide spread and deeply entrenched with employers and recruiters. A significant number of mature aged workers are long term or very long term unemployed, excluded from the paid work force by misguided and unjustified prejudices.

Improving the rewards from paid work is a worthy and necessary initiative. The combination of Income Tax and Centrelink Income Test and Taper Rate creates Effective Marginal Tax Rates well above those imposed on non income support recipients. Single pensioners are seriously disadvantaged by the two systems.

Example based on pensioners' income of \$400 gross income per fortnight and Income Taxed at 15%

	<u>Penalty free</u>	<u>Taper rate/amount</u>	<u>Retained income</u>
Single	\$138	Nil	\$138
	<u>\$262</u>	40% \$105	<u>\$157</u>
	\$400		\$295
	Less income Tax - \$400 x 15%		<u>\$ 60</u>
	Net retained income		<u>\$235</u> (59%)
Couple	\$240	Nil	\$240
Combined	<u>\$160</u>	20% \$32	<u>\$128</u>
	\$400		\$368
	Less Income Tax - \$400 x 15%		<u>\$ 60</u>
	Net retained income		<u>\$308</u> (77%)

In this example, a single pensioner is \$73.00 worse off than a couple.

The income test and taper rates are based on gross income. The amount that has already been taxed at 15% is further penalized by Centrelink. This imposes EMTRs of 35% on a couple and 55% on a single pensioner.

Newstart and Youth Allowance apply a penalty free threshold of just \$62 per fortnight and a taper rate of 50% or 60% on income above the threshold. This imposes EMTRs of 65% or 75%.

Workers at the lowest end of the income scale are taxed at rates well above the Australian Tax Office schedule. This is a serious disincentive to work and is unfair on those who do participate in employment.

Pensions are exempt from income tax whilst other categories of transfer payment such as Newstart and Youth Allowance are regarded as taxable income. No tax is payable on these Allowances if they are the sole source of income. However, when income from work or investments and Newstart or Youth Allowance are combined individuals can find themselves liable for retrospective income tax on the Allowances they have received during a financial year. This situation together with Centrelink's income test and taper rates can leave an individual with very little, or no rewards from paid work. This creates a serious disincentive to participate in the workforce

Recommendation 1:

Reduce the Centrelink taper rate for single pensioners to 20%, the same as for members of a couple.

Recommendation 2:

Centrelink to apply its taper rates to net after tax income.

Recommendation 3:

Restore the Disability Support Pension eligibility criteria to the capacity to work less than thirty hours per week. This will ensure that people with a disability are not forced onto Newstart Allowance which provides a lower payment, harsher income test and taper rates and costs imposed by "mutual" obligations activities.

Recommendation 4:

Exempt all transfer payments from income tax.

(3.6) The proposed Emissions Trading System, (ETS).

My knowledge of the proposed ETS is limited to the understanding that industry and business will be taxed according to a specified levels of carbon emissions. It is expected that this costs will be passed on to consumers through higher prices for goods and services. The government has indicated it will compensate low income individuals and families for the increased costs of consumption.

A scheme based on averages or medians will disadvantage those at the low end of the measurement scale. There is no indication as to how compensation will be paid but there seems to be only two options; through increasing transfer payments and/or tax concessions. Whatever measures are introduced, I am not optimistic that they will properly compensate those on low incomes. It is likely that prices will increase in excess of compensation paid and at faster than payments are reviewed or indexed. This is precisely what happens with the CPI and GST.

I am not able to offer specific recommendations other than to say that any scheme must adequately compensate transfer payment recipients and low income earners.

(4.1) Enhancing overall economic and social wellbeing through incentives for workforce participation.

Financial incentives to participate in paid work need to be supported by effective programs and services to assist job seekers to secure employment. My personal experiences as a client of six Job Network providers indicate that;

- The Job Network format imposes a cumbersome administration and reporting regime and rigid systems. A disproportionate amount of members' time and resources are devoted to following processes and meeting their contractual obligations to the government rather than on job placements and productive support and outcomes for job seeker clients.
- The system encourages a focus on 'easy to place' clients and churning the rest through unpaid work schemes, inappropriate training or preparation for work programs in order to receive immediate and periodic fees for services. I was not referred to a single job interview during my long very period of unemployment. I was required to participate in non productive activities including three episodes of Job Search Training and Intensive Assistance.
- Job Network providers have little or no understanding of, or empathy with disadvantaged clients and those with special needs, particularly those who are mature aged, long term unemployed or living with a disability.

As a registered client since February 2007, I note that the Disability Employment Network does not have the same access to funds, programs and services available to Job Network members, including the Jobseeker Account and pre-employment training; DEN providers can only provide training support after they have placed a client in paid employment.

(4.1) Promoting participation through improved services.

The Job Network was established in 1998 when the unemployment rate averaged 8.5%. Job seekers were entitled to register with up to five agencies. This allowed individuals to select providers catering to their specific needs or on the basis of job placements record. Competition encouraged a focus on quality of services and productive outcomes for job seekers and JN members.

Under the former government's Welfare to Work agenda, registration with a Job Network provider is now compulsory but individuals are restricted to selecting a single agency for all services. This has eliminated competition; job seekers are 'captive' clients until they secure employment or exit the provider for other reasons.

The current national jobless figure is 4.3% and 3.7% in Queensland. The Job Network has lost at least half its customer and revenue base which has not been replaced by the referral of single parents and people with a disability. Yet, there are still the same number of Job Network sites which receive the same overall level of government funding. This greatly increases the average cost of service delivery and job placements.

Recommendation 5:

Restructure the format and funding of the Job Network to focus payments on productive outcomes for clients rather than fees for following a process.

Recommendation 6:

Re-distribute funds to support Job Network members with a demonstrated ability to service clients with special needs.

Recommendation 7:

Extend particular Job Network programs and facilities to the Disability Employment Network, including access to the Job Seeker Account, pre-employment training and vocational study.

(4.1) Promoting participation through skills formation.

The current skills shortage is the result of poor forward planning and the lack of commitment to provide effective training programs. During the past decade, the federal government has reduced funding for training in the workplace and to allow job seekers to secure a job.

Targeted pre-employment training for unemployed workers has been widely replaced by a range of 'mutual' obligation activities such as Work for the Dole, Community Work placements and so called 'work experience'. These unpaid work schemes destroy what could and should become paid jobs most do not provide legitimate training or accredited qualifications.

A significant number of unemployed people are conscripted to work unpaid in state government departments under federally funded programs. Non- govt. organizations, including major Job Network contractors, are major exploiters of unpaid work schemes. Why employ and/or train people when a large pool of unpaid labour is available?

Reports by government agencies have revealed how unscrupulous employers, have exploited the New Apprenticeship Scheme as a source of cheap labour. Employers have received substantial payments for conducting the basic training

they have always needed to provide junior age workers, the fast food industry is foremost in this abuse of the program. Large organizations have accessed payments by enrolling existing employees who continue the same duties without any further training. This is a gross misuse of funds which could be better used to provide productive training targeted to areas of skills shortages.

Recommendation 8:

Reform the New Apprenticeship Scheme to;

- (a). Target placements to areas of current and predictable skills shortages.
- (b). Tighten the placement criteria and improve monitoring systems to reduce or eliminate the opportunities for abuses by employers and recruiters.

(4.1) Increasing participation by older workers and people with a disability.

Whilst particular industries are finding it difficult to recruit qualified workers, a large pool of skilled labour is being overlooked and excluded through employer attitudes towards older workers and people with a disability, many of whom have a lifetime's accumulation of skills and experience in trades and vocations where demands are not being met.

Changing entrenched prejudices is a long term education project. A positive and productive first step would be to demonstrate and support the value people who are mature age or living with a disability can offer employers as workers, trainers and mentors. Their knowledge can be applied to improve skills and productivity, reduce absenteeism and workplace accidents, lift morale and increase profits. Any employer would welcome this benefits package.

The government might consider some sort of incentive to encourage employers to hire older Australians in any of the above roles. The incentive could be in the form of a wages subsidy or tax concessions or a mix of both measures. If such a scheme exists, I have not discovered it during my extensive attempts to re-enter the paid workforce.

Recommendation 9:

Introduce an incentive scheme to reward employers prepared to hire mature age workers and people living with a disability as direct labour, trainers or mentors.

The outcomes from these placements should be closely monitored and success stories published as part of a longer term strategy to demonstrate the benefits from hiring suitably qualified older workers and people with a disability.

(4.2) Incentives for individuals to save and provide for their future.

The majority of workers are in the low or average income brackets. Various reports confirm that a significant number of employed Australians are living at or above the Henderson Poverty Line, referred to as "working poor".

Pensions are indexed at 25 per cent of Male Total Weekly Earnings, (MATWE). Unemployed people receiving Newstart or Youth Allowance are considerably worse off through lower payments, harsher income test and taper rates and financial demands resulting from 'mutual' obligation activities. People living with a disability have significant costs not incurred by the rest of the community.

Examples include;

- Purchase and maintenance of special equipment and appliances.
- Modifications to home or a motor vehicle.
- In home care and support.
- Medications, some of which may not be available through the PBS.
- Transport to access medical treatment and services.

The transfer payments system financially disadvantages single people in terms of payment rates and the treatment of income. A single person is not able to amortise the costs of particular goods and services in the same way as a couple.

It is not a question of a desire to save: anyone whose only source of income is a transfer payment is struggling to meet basic costs of living and doesn't have the means to save for their future. There is no doubt that pensions and allowances need to be increased. It is most likely that any increase will be used to meet immediate needs and offset some of the burden from rising prices of necessities including housing, food and transport. It is equally unlikely that increasing payment rates will facilitate savings.

The government might consider introducing a scheme similar to the compulsory superannuation contribution by employers. A percentage amount over and above a transfer payment could be credited to a fund for individual recipients. Access to funds could be granted at a specified age or to meet unexpected financial demands such as medical treatment or essential home repairs. Consideration should be given to retirees who might be given the option to access accumulated funds on an annual basis. In cases where one member of a couple dies, their accumulated funds could be transferred to their surviving partner.

Recommendation 10:

Introduce a funds accumulation scheme for income support recipients along the lines of the compulsory superannuation contribution scheme for employers.

(5) The announced aspirational income tax goals.

I acknowledge the complexities of Income Tax system and restructuring bracket benchmarks and tax rates on an equitable basis. However, the proposed changes 2008 - 2010 deliver the greatest gains to high income earners and are of little or no Benefit to those at the bottom of the income scale.

Revisions in the 15% tax bracket offer minimal relief on income between \$30kpa and \$37kpa, but a significant number of workers don't reach those income levels.

Obviously, Income Tax concessions are only a benefit for people with income from employment or investments. Income support recipients with employment are mostly likely to be in part time or casual jobs, working relatively short or irregular hours on a low rate of pay. Their income may not even reach the \$6,000 tax free threshold let alone exceed it.

As stated earlier in this submission, Newstart and other Allowances are exempt from tax only if they are a sole source of income. When Allowances are added to other income, the combination of Income Tax, Centrelink's taper rates and the costs of participation leave individuals with little or no rewards from their work. There is no legitimate reason for the discriminatory treatment of Allowance recipients' income.

An effective way to reduce the burden on low incomes would be to increase the tax free threshold to say \$13,000. This would effectively quarantine all transfer payments from income tax when combined with other income. The benefits to low income workers would be greater than progressively increasing the upper limit of the 15% tax bracket from \$34,000 in 2008 to \$37,000 in 2010.

Perhaps the threshold should remain at \$6,000 when income reaches \$180,001kpa.

Recommendation 11;

Increase the tax free threshold to \$13,000 for incomes up to \$180kpa.

Apply a \$6,000 threshold to income of \$180,001kpa.

(9) Consideration of all relevant tax expenditure.

The taxation system allows concessions for companies business, political parties and registered charities. Historically, charities have enjoyed tax exemption status on income from public donations, bequests and retailing of second hand clothing and goods.

Charities;

Whilst traditional fund raising activities are continued, particular charities are heavily involved in mainstream commercial activities in competition with private the sector. Three of Australia's largest charities have a combined share of 30% of Job Network contracts, when smaller charities are included the percentage is around 50%.

One of the largest charities operates cafes and an external catering business. The majority of staff working in commercial enterprises operated by charities are unpaid volunteers, many of home have been recruited through the Job Network arm of the same organization. I have witnessed several occasions when this has allowed charities to substantially undercut private operators' prices.

The paid staff of charities is able to "salary sacrifice" to avoid tax on a significant portion of their income. This allows creates a saving for charities by paying artificially low wages which is a feature of welfare sector jobs.

A significant number of Work for the Dole projects are initiated and/or sponsored by charities. The compulsory scheme allows charities to conscript job seekers as unpaid workers in commercial operations including their own Job Network offices. Job Network members receive a fee up to \$2,600 for each job seeker conscripted to a Work for the Dole project compared to around \$600 for real job placements. It is obvious that the better option for Job Network members provides few, if any benefits to job seekers.

Charities which operate Job Network agencies and other commercial enterprises have serious conflicts of interests and enjoy unfair advantages over the private sector through avoiding taxes, wages and recruitment costs. Some large charities have a significant property portfolio, if they are exempted from associated taxes, this provides a further unfair advantage over private sector operators.

This situation surely has a negative effect on job creation and paid employment opportunities; why incur the costs of recruitment and wages when the government pays you to access a pool of compliant unpaid labour?

I am not aware of what percentage of income from commercial activities charities apply to their traditional function of providing material relief, and services to the disadvantaged members of the community.

It may be suggested that the application of these funds reduces government costs of providing social and welfare services. I would argue that if charities paid tax on income from commercial activities the increased revenue would enable governments to extend public services. Alternatively, tax collected could be returned to charities in the form of grants to provide an specified range and level agreed services and support to the community.

Political parties;

Why should political parties be exempt from tax on donations received when the donors are also the claim the gifts as an allowable tax deduction? Political parties also receive a taxpayer allowance for each vote secured during elections. All parties have an obvious vested interest in maintaining this double dipping tax avoidance facility.

Recommendation 12;

Remove tax exemption concessions from income derived through commercial activities by charities.

Recommendation 13;

Tax donations to political parties, or disallow tax deductions for donors.

Summary of recommendations;

Rec No;

- (1). Reduce the Centrelink taper rate for single pensioners to 20%, the same as for members of a couple.
- (2). Centrelink to apply it's taper rates to net after tax income.
- (3). Restore the Disability Support Pension eligibility criteria to the capacity to work less than thirty hours per week. This will ensure that people with a disability are not forced on to Newstart Allowance with it's lower payments, harsher income test and taper rates and costs imposed by "mutual" obligation activities.

- (4). Exempt all transfer payments from Income Tax.
- (5). Restructure the format and funding of the Job Network to focus payments on productive outcomes for clients rather than fees for following processes.
- (6). Re-distribute funds to support Job Network members with demonstrated abilities to effectively service clients with special needs.
- (7). Extend particular Job Network programs and facilities to the Disability Employment Network, including access to the Job Seeker Account, pre-employment, training and vocational study.
- (8). Reform the New Apprenticeship Scheme to;
 - a. Target placements to areas of current or predictable skills shortages.
 - b. Tighten placement criteria and improve monitoring systems to reduce or eliminate abuses by employers and recruiters.
- (9). Introduce an incentive scheme to reward employers prepared to hire mature age workers and people living with a disability as direct labour, trainers or mentors.
- (10). Introduce a funds accumulation scheme for income support recipients along the lines of the compulsory superannuation contributions scheme for employers.
- (11). Increase the tax free threshold to \$13,000 for income up to \$180kpa. Apply a \$6,000 threshold to income above \$180kpa.
- (12). Remove tax exemption concessions from income derived through commercial activities by charities, excluding retailing of second hand clothing and goods.
- (13). Tax political donations or disallow tax deductions for donors.

In conclusion;

The majority of the above recommendations seek to address financial inequities which have long existed in the taxation and social security systems. Immediate priorities are to increase the base rate of fortnightly payments and improve the level of rewards from paid employment. The \$22 billion Commonwealth Budget surplus provides the means to implement these measures. It's not a question of can we afford it, the fact is we can't afford not to.

I appreciate the opportunity to contribute to this important review. Further information, clarifications or answers to questions will gladly be provided upon request.

Personal submission prepared by;



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Ron Baker
26 August 2008.