Uniting Church in Australia

Submission to Australian Treasury

CONSULTATION ON THE ARCHITECTURE OF AUSTRALIA'S TAX AND TRANSFER SYSTEM

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This submission was prepared on behalf of the Uniting Church in Australia by
The Australia Institute

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1 | The Uniting Church and Economic Justice

The Uniting Church believes that taxation is a profoundly moral matter. It is the primary means for ensuring the equitable distribution of wealth and the raising of public money, our "common wealth", in order that we may ensure that basic needs of people in society are met. In other words, it is one of the most important tools at our disposal for achieving economic justice and is vital to a flourishing society.

In 1977, in its first *Statement to the Nation*, the Uniting Church in Australia articulated some of the core values and vision which would drive its engagement in issues of social policy:

> We pledge ourselves to seek the correction of injustices wherever they occur. We will work for the eradication of poverty and racism within our society and beyond. We affirm the rights of all people to equal educational opportunities, adequate health care, freedom of speech, employment or dignity in unemployment if work is not available. We will oppose all forms of discrimination which infringe basic rights and freedoms.
>
> We will challenge values which emphasise acquisitiveness and greed in disregard of the needs of others and which encourage a higher standard of living for the privileged in the face of the daily widening gap between the rich and poor.
>
> We are concerned with the basic human rights of future generations and will urge the wise use of energy, the protection of the environment and the replenishment of the earth's resources for their use and enjoyment.[1]

The church does not believe that taxation is a burden to be endured but rather regards it an appropriate response to God's free gifts of life.

In its 1988 discussion paper entitled *Economic Justice – the Equitable Distribution of Wealth*,[2] the Uniting Church articulated the following principles which underlie this submission twenty years later:

- For Christians, the question of economic justice is the question of how we respond to God's free gifts.
- Genuine wealth is not defined in monetary terms, but as those things which contribute to the well-being of humankind.
- There are a variety of ways in which people contribute to society. Production is a communal activity.
- Genuine material wealth is neither money, or luxurious goods and services. Humankind will be genuinely materially wealthy when everyone has access to the following goods and services at the level required to satisfy basic human

[1] Uniting Church in Australia, Inaugural Assembly, *Statement to the Nation*, July 1977, available at http://www.unitingjustice.org.au/images/pdfs/resources/churchstatementsandresolutions/1_statement1977.pdf
[2] *Economic Justice – the Equitable Distribution of Wealth,* Assembly Social Responsibility and Justice Committee, adopted for church-wide distribution and study by the 1988 Assembly, available at http://www.unitingjustice.org.au/images/pdfs/issues/economic-justice/discussionpapers/economicjustice_88.pdf

needs – appropriate food, clothing and healthcare; safe and secure housing; meaningful work, education, rest and enjoyment; and the opportunity to participate in and contribute to communities.

- Access to genuine wealth cannot be restricted to a privileged section of society, for such wealth is a gift from God.
- The Uniting Church has a role to play in the economic policy debate, in helping society reflect on the nature of genuine wealth, especially the gift of the world and the communal nature of so much of the wealth which enriches human life.

About taxation in particular, the Uniting Church believes[3]:

- Taxation is necessary if the government is to fulfil its responsibilities in provision of services ensuring that all people in the community have their basic needs met (a matter of human rights) and correcting the inequitable distribution of income and access to goods, services and resources which results when distribution is left to the private sector and market mechanisms.
- It is how people contribute, according to their means, to the well-being of the whole community, through redistribution and the provision of goods and services.
- When people argue about taxation, they are actually arguing about the level of responsibility they should accept for the community.
- The government has a responsibility to protect the human rights of all Australians. This includes their economic, political and social rights. This requires the horizontal and vertical redistribution of income which is only possible through taxation.

The Uniting Church is grateful for the opportunity to contribute to this important consultation process. It offers this submission as a positive expression of the Church's commitment to the long-term well-being of all Australians, in particular those who are most in need in our society.

[3] ibid.

2 | Summary of Recommendations

The Uniting Church in Australia recommends:

1. that the Henry Review explicitly examine:
   a. the nature and extent of the gaps in service delivery functions of Australian governments
   b. the adequacy and equity of the current taxation system
   c. the need to both simplify, improve and increase the support provided through the taxation system to the not-for-profit community sector;

2. a new top marginal rate of tax be introduced for very high income earners;

3. the high marginal tax rates and 'poverty traps' faced by welfare recipients and low income earners be addressed as a high priority;

4. HECS repayments not begin until graduates have reached average weekly earnings;

5. large tax expenditures be reduced or removed, in order to increase equity and efficiency in the taxation system while raising revenue to provide enhanced services for those most in need; and

6. increased budgetary assistance be given to the not-for-profit community sector, either directly, or through an expansion and/or reform of the indirect supports for the sector such as the provision of FBT concessions to employees.

This submission builds on earlier submissions to the *Senate Standing Committee on Economics Inquiry into the Disclosure Regimes for Charities and Not-for-profit Organisations*, the Department of Families, Housing, Community Services and Indigenous Affairs Pension Review[4] and the Carbon Pollution Reduction Scheme Green Paper Consultation[5].

[4] both available at http://www.unitingcare.org.au/policies-a-publications.html
[5] available at http://www.unitingjustice.org.au/images/pdfs/issues/living-sustainably/submissions/cprsgreenpaper_uca_090908.pdf. The UnitingCare submission is available from the website listed above.

3 | Basic Principles

The Uniting Church in Australia welcomes the opportunity to contribute to a 'root and branch' review of the tax system. The premise on which our submission is based is that tax is the price we pay for a civilised society. We believe that the central design principle of the tax system must be the capacity to raise enough revenue to meet the democratic demands for government expenditure. The Uniting Church believes it is reasonable to demand government expenditure on service provision to the disadvantaged and vulnerable to ensure they have a decent life and can access the services they need to facilitate economic and social participation. It is also reasonable to expect that a nation as prosperous as Australia has an adequate income support system that enables all Australians to access the components of a decent life – adequate and appropriate food, clothing and healthcare; safe and secure housing; meaningful work, education, rest and enjoyment; and the opportunity to participate in and contribute to communities.

The tax system should also be structured to encourage sustainable and ethical economic activity, facilitate individual and community wellbeing and inclusion and discourage activities that exacerbate social and economic disadvantage and vulnerability.

The Uniting Church believes the following principles should guide reform of the tax system:

1. Equity is first priority – across generations, across income groups and sources of income and across industries. This implies a progressive tax system.
2. People matter – especially those who are disadvantaged and vulnerable
3. Not-for-profit community sector services are essential to the economic and social life of Australia.
4. Tax rates need to be set at a level that ensure governments have the capacity to meet community expectations about services, income support and national infrastructure
5. Simplicity and efficiency (balanced against equity) are important– for example, complicated exemptions should be removed and replaced with transparent allocation of government funds according to policy priorities about social inclusion.
6. Reform of the tax system can contribute to reducing regulatory burden and increasing transparency of government support.

A restructured tax system would redistribute resources transparently and progressively to:

- facilitate social and economic participation of vulnerable and disadvantaged people and communities;
- prioritise support to the most disadvantaged;
- sustain the service system (equity of tax treatment for low paid and high paid workers, viability of non-profit service providers, transparent support to care provider industries);

- reduce regulatory burden; and
- reduce distortions such as the high effective marginal tax rates and poverty traps faced by low income earners receiving market income and benefit payments

We believe that the Government has an obligation to take the unique opportunities that are associated with the previous 16 years of prosperity and convert them, through the redesign of the taxation system, into a more equitable and sustainable Australia.

In particular, we believe that the Government's response to this tax review should be judged by the following criteria.

1. The Australian government must be able to collect the additional revenue it needs to meet obvious shortcomings in provision of community services in general, and by the not-for-profit community sector in particular.
2. The tax system is used to increase equity by collecting a greater proportion of tax revenue from those with the greatest capacity to pay.
3. Reforms to the tax system reduce the administrative complexity faced by the not-for-profit community sector.
4. Tax reform is being used to enhance the Government's ability to achieve its stated goal of achieving environmental sustainability, particularly the goal of reducing greenhouse gas emissions.

The Uniting Church supports the introduction of the Government's proposed Carbon Pollution Reduction Scheme (CPRS) as an important and effective strategy for reducing Australia's greenhouse gas emissions. We do not believe that the CPRS should ever be regarded as a means of raising tax revenue. We believe that the tax system should be reformed in order to ensure that it raises adequate revenue, raises revenue equitably, and does so as efficiently as possible, we believe that the CPRS should conform to these same obligations.

The Uniting Church is particularly concerned to ensure that the principles of equity are maintained in relation to the CPRS. For example, we believe that:

1. emission permits should be auctioned, and not given away to large polluters;
2. revenue collected from the auctioning of permits should be used to ensure that low income households should not be disadvantaged; and
3. the not-for-profit community sector, which has limited capacity to pass on the impact of higher costs to 'customers', should not be disadvantaged.

This section begins with an overview of the Australian tax system with a particular focus on the relatively low levels of tax revenue in Australia. Such low tax receipts do not provide for the adequate funding of public services in Australia and do not adequately address the extent of inequity in income distribution. An analysis of the nature and extent of the various tax exemptions in Australia is then provided in order to highlight ways in which the Commonwealth can simultaneously raise revenue and simplify the tax system.

4.1 AN ADEQUATE SYSTEM?

Over the past two decades the notion that the proportion of GDP collected should fall, or at a minimum be held constant, has become so widely held that it is rarely questioned. Indeed, the original 'problem' that led to the creation of the intergenerational reports was not the concern that Australia would not be able to afford to pay for high quality health care for an ageing population, but that in order to do so the proportion of GDP collected in tax might need to rise.

Table 1 shows that Australia's government receipts are consistently below the average of that collected across OECD. Indeed, the divergence between Australia's tax collections and those of the OECD have grown significantly over the past 50 years, from 2.2 to 5.3 per cent of GDP. If Australia's tax revenue, as a percentage of GDP, was equal to the OECD average then tax revenue in Australia would be more than $50 billion per year greater.

Table 1: Tax revenue as a share of GDP – OECD countries 1960 to 2006

	TAX GDP: Tax revenue as percentage of GDP						
	1960	1970	1980	1990	2000	2005	2006
Country							
Australia	22.4	21.5	26.7	28.5	31.1	30.9	..
Austria	30.6	33.9	39.0	39.6	42.6	42.1	41.9
Belgium	26.5	33.9	41.3	42.0	44.9	45.4	44.8
Canada	23.8	30.9	31.0	35.9	35.6	33.4	33.4
Czech Republic	..	..	..	..	35.3	37.8	36.7
Denmark	25.2	38.4	43.0	46.5	49.4	50.3	49.0
Finland	27.7	31.5	35.7	43.5	47.2	44.0	43.5
France	..	34.1	40.1	42.0	44.4	44.1	44.5
Germany	31.3	31.5	36.4	34.8	37.2	34.8	35.7
Greece	..	17.4	18.8	22.8	29.7	27.3	27.4
Hungary	..	..	..	..	38.0	37.2	37.1
Iceland	..	27.4	29.6	30.9	38.1	41.4	..
Ireland	20.5	28.4	31.0	33.1	31.7	30.6	31.7
Italy	34.4	25.7	29.7	37.8	42.3	41.0	42.7
Japan	18.2	19.6	25.4	29.1	27.0	27.4	..
Korea	..	..	17.2	18.9	23.6	25.5	26.8

	TAX GDP: Tax revenue as percentage of GDP						
	1960	1970	1980	1990	2000	2005	2006
Luxembourg	..	23.5	35.7	35.7	39.1	38.6	36.3
Mexico	..	..	16.2	17.3	18.5	19.9	20.6
Netherlands	30.1	35.4	43.4	42.9	39.7	39.1	39.5
New Zealand	27.3	25.9	30.6	37.4	33.6	37.8	36.5
Norway	31.2	34.5	42.4	41.0	42.6	43.7	43.6
Poland	..	..	..	..	31.6	34.3	..
Portugal	16.2	18.4	22.9	27.7	34.1	34.8	35.4
Slovak Republic	..	..	..	..	32.9	31.6	29.6
Spain	14.0	15.9	22.6	32.5	34.2	35.8	36.7
Sweden	27.2	38.2	46.9	52.7	52.6	50.7	50.1
Switzerland	19.0	19.8	25.3	26.0	30.5	29.7	30.1
Turkey	11.5	12.5	17.9	20.0	32.3	32.3	32.5
United Kingdom	28.5	37.0	35.2	36.3	37.3	36.5	37.4
United States	26.5	27.0	26.4	27.3	29.9	27.3	28.2
OECD - Total	24.6	27.6	31.2	33.9	36.2	36.2	..

Source: OECD Statistics accessed 2 Oct. 08.

It is important to note that many of the European countries including France and Belgium have government revenue at more than 40 per cent of GDP while in the case of Sweden it is over 50 per cent of GDP.

By the standards of the developed world **Australia is a low tax country. Our small revenue base makes it hard for the government to invest significantly in the kinds of services that not just help build economies, but help build societies.** While the language of 'burden' can conceal it, the fact is that taxes have a number of significant benefits as a policy tool. Not only do they raise revenue to fund essential services, but they also serve, when designed well, to perform the important task of increasing social inclusion and community cohesion through deliberate income redistribution.

We believe it is self evident that the current level of taxation is insufficient to meet the needs of those in most need and to sustain the services that support them. This view is supported by the evidence surrounding shortcomings in the health, education, environmental protection and income support functions of government. We also note that by international and historical standards the level of taxation in Australia is low.

In the not-for-profit community sector, and the groups supported by the sector, there is significant need for additional resources, including:

- significant increase in funding to not-for-profit community sector agencies to ensure financial viability;
- improved capacity to remunerate and further train the workforce to meet increasingly complex need;
- enhanced provision of comprehensive services that can respond to increasingly complex issues that impact on the capacity of vulnerable and disadvantaged to participate in society;

- meeting increasing demand for services as financial hardship grows in a period of economic downturn; and
- A significant increase in income support payments, with top priority for increased payments going to those whose sole source of income is income support (either pension or benefit).

4.2 AN EQUITABLE SYSTEM?

Having determined the amount of money required to provide the services expected by its citizens, the second priority must be to raise that revenue equitably. As discussed below, the current taxation system contains a number of inequities that entrench, rather than reduce, equity.

Australia is a prosperous country, whose wealth has grown steadily for the past 16 years. Strong economic growth has been underpinned by a range of factors including changes in government policy, technological change, growth in the average hours worked and increasing world demand for Australia's natural resources.

But as the Australian Government begins to consider the implications of the likely end of this boom, the benefits of the 'boom' are yet to improve the lives of many of the most vulnerable groups in the nation. For example:

- The gap between the life expectancy of indigenous and non-indigenous Australians remains at 17 years.
- The single aged pension is only $281 per week.
- An estimated one hundred thousand people are homeless.
- Unemployment remains above 10 per cent in many towns, while some communities of concentrated disadvantage experience even higher rates.

Table 2

Table 3.1: Estimated distribution of wage and salary income and capital income in 2005-06

	Bottom		Top		
	20 per cent	50 per cent	20 per cent	10 per cent	1 per cent
Salary or wages	2.4	17.6	45.9	28.0	5.3
Net rent	18.8	31.3	38.8	24.0	4.0
Gross interest	8.4	34.7	39.4	28.2	9.4
Dividend income	3.2	11.7	75.2	64.4	35.7
Net capital gain	4.2	13.3	73.7	64.2	38.6
Net business income	-3.2	18.7	54.6	44.0	22.2
Net partnership & trust income	-1.3	15.0	62.9	46.8	23.1
Capital income	0.4	15.8	65.2	53.0	28.5

Source: Australian Government administrative data.

Table 2 shows just how uneven the distribution of income in Australia is. For example:

- The top 1 per cent of income earners earn more than twice as much from wages and salaries as the bottom 20 per cent combined.
- The top 1 per cent of income earners earn more than a third (35.7 per cent) of all dividend income in Australia.
- The top 1 per cent of income earners earn 38.6 per cent of all capital gains income in Australia.

While the extreme inequity of income and wealth distribution shown in Table 2 should be of concern, what is of greater concern is the way that the tax system has changed over time to exacerbate it. For example:

- The top marginal tax rate which, by definition, is paid by the highest income earners, has shown the most rapid rate of decline over the past decades falling from over 60 per cent in the late 1980s to 45 per cent today. The threshold at which the top tax rate is paid has also increased rapidly in recent years, such that now only those earning over $180,000 per annum face the top tax rate. **This has delivered a significant reduction in tax for high income earners.**
- The incomes of CEOs of large corporations have risen much more rapidly than the incomes of average Australians. **The Uniting Church believes that an essential step towards increasing the equity of the current taxation system is to introduce a new top marginal tax rate for very high income earners.** Such a step would increase the progressive nature of the taxation system, raise significant additional revenue and ensure that the tax system keeps pace with the acceleration in incomes currently being paid to the executives of large corporations.
- While much is made of the need to keep tax rates faced by high income earners low, in order to ‘maintain incentive’, the effective marginal tax rates faced by low and middle income earners moving from income support to part time paid work, and from people moving from low paid work to higher paid work, are often much higher than the 45 per cent rate faced by high income earners. We believe that these ‘poverty traps’ are among the more pressing problems with the tax system and should be addressed as a high priority. Addressing these poverty traps provides a unique opportunity to increase the efficiency, equity and simplicity of the tax system. **While the cost of addressing poverty traps is high, given the large number of people affected, we believe that the benefits of doing so outweigh the benefits of other forms of tax reform, particularly the benefits of further reductions in the top tax rate.**
- Reductions in the corporate tax rate have an even more significant impact on the distribution of income. What the figures in the table above show is that for every $1 billion spent on reducing the corporate tax rate, $357 million ends up in the bank accounts of the wealthiest 1 percent of Australians, $644 million ends up with the wealthiest 10 percent, and more than three quarters, $752 million, is captured by the wealthiest 20 percent of citizens. **For each $1 billion in revenue lost to the Australian Government only $248 million is returned as tax cuts to be shared amongst the remaining 80% of Australian tax payers.**

- Despite decades of trying to simplify the tax system and remove incentives for taxpayers to structure their finances in ways designed to reduce their tax bills the Howard Government introduced a 50 per cent discount for tax payable on capital gains. Treasury figures in Table 2 show just how much this tax concession benefits the very wealthy with 38.6 per cent of all income from capital gain being received by wealthiest 1 per cent of the population. **The retention of the policy of halving the profits paid on capital gains, costs an estimated $7.83 billion per annum. Of this, $3 billion goes directly to the wealthiest one percent of tax payers, while only $320 million accrues to the bottom 20 per cent.**
- While the HECS system has a role to play in the context of a progressive income tax system we believe that the income thresholds at which HECS debts must now be repaid are inconsistent with the original design principle of HECS, namely, that individuals should only start to make repayments once they have clearly benefited financially from their degree. **To that end we believe that HECS repayments should not begin until the graduates have reached average weekly earnings.**

4.3 A SIMPLE AND EFFICIENT SYSTEM?

The pursuit of simplicity and efficiency in the tax system is important, but simplicity should not be seen as a goal in its own right. That is, as mechanisms designed to increase equity or take account of the idiosyncratic circumstances of some disadvantaged groups tend to reduce simplicity, such measures must be evaluated against a broader set of criteria than just simplicity.

We call on the Henry Review to explicitly examine the nature and extent of the gaps in the service delivery functions of Australian governments. We believe that this review is uniquely placed to collect such information and that such information is central to any subsequent national conversation about the need to either increase or reduce the aggregate level of taxation. Such an assessment of the current need for increased government spending is consistent with the first objective of the review, i.e. ‘The tax system serves an important role in funding the quality public services that benefit individual members of the community as well as the economy more broadly.’

We call on the Henry Review to explicitly consider the equity of the current taxation system. We are concerned that, over time, the level of horizontal tax equity (that is, the notion that those with similar incomes should pay similar taxes) has been steadily eroded. For example, an investor who earns $80,000 from capital gains pays less tax than an entrepreneur who earns $80,000 from their business who in turn pays less tax than someone who earns $80,000 as an employee.

We call on the Henry Review to examine the need to both simplify, improve and increase the support provided through the taxation system to the not-for-profit community sector. According to the ABS the not-for-profit community sector provided more than $7 billion to the Australian community and to economic activity – in form of wages, goods (food, materials) and services (buildings, transport). But the contribution to the community goes much deeper than that. The not-for-profit community sector creates social inclusion, builds community cohesion and facilitates economic participation. The not-for-profit community sector provides services to the most vulnerable members of the community at a cost far lower than is possible from government or for-profit providers.

Using business approaches and models of care that are not viable in the private sector the not-for-profit community sector builds and binds communities in ways that are beyond economic valuation - it is an integral part of civil society. Unless the not-for-profit community sector is provided with sustainable levels of net support, accompanied by simple administrative obligations, then the sector will not be able to sustain the services it provides or the role it plays in social and economic policy debates. Not-for-profit community sector agencies receive significant funding from Government, but UnitingCare agencies and others also generate resources from Uniting Church congregations, fundraising, private donations and industry partners.

If community agencies like UnitingCare are not economically sustainable, Australian governments at all levels risk having to provide those same services, either directly or via the for-profit sector, with a concomitant reduction in social capital and capacity to leverage additional funds from non-government sources. They will also lose access to the experiences and views of groups and communities represented in not-for-profit community sector advocacy.

The previous failure to use the tax system to equitably raise revenue *from* those with the most and direct *towards* those in the most need provides the current government with a unique opportunity. Simply by removing some of the existing inequities in the system the government can both improve the distribution of income and collect the extra revenue to tackle major policy problems. The following section provides an overview of the nature and extent of the current tax exemptions which, if removed, would both simplify the tax system and raise significant amounts of additional revenue – without even having to increase the rates of tax.

The capacity to raise revenue through simplifying the tax system

While most commentators support the need to simplify the tax system, the implicit assumption appears to be that the number of taxes needs to be reduced. Indeed, in launching the tax review specific mention was made of the number of different taxes in the Australian economy. Such a focus on the number of taxes across the entire economy, rather than the number of taxes faced by individuals or companies engaged in a particular activity, has the capacity to excessively simplify the debate.

An unambiguous way to simplify the tax system, and in turn to increase the amount of tax revenue available to fund essential services, is to remove a wide range of tax exemptions. Such exemptions, which are also known as ‘tax expenditures’ impose significant costs on the Commonwealth Budget but are less transparent than direct expenditures incurred by the Commonwealth. That is, while each year the Government is required to seek parliamentary approval to appropriate funds for specific purposes, there is no such annual obligation to gain parliamentary approval for tax expenditures. That said, the Treasury does publish an annual summary of the nature and extent of tax expenditures, and this summary forms the basis of the following analysis.

According to the latest Tax Expenditure Statement (2007) for the year 2008-09 the total cost of tax expenditures to the Commonwealth is projected to be $52.5 billion, or 4.4 per cent of GDP compared to 3.7 per cent of GDP in 2003-04.

Table 3 shows just how valuable some of these tax expenditures are, with the capital gains tax discounts, discussed above, accounting for nearly $7 billion in 2007-08 and the total for selected tax expenditures being more than $36 billion per year. In addition to improving equity and raising revenue it is important to note that the abolition of some tax expenditures would lead to significant environmental improvements through the removal of subsidies to emission intensive industries such as passenger cars and air transport.

Table 3 Selected large tax expenditures 2007-08

Tax Expenditure Estimate	$m
Superannuation - concessional taxation of superannuation entity earnings	13,600
Superannuation - concessional taxation of employer contributions	10,150
Capital gains tax discount for individuals and trusts	6,870
Superannuation - capital gains tax discount for funds	1,550
FBT tax concessions for company cars	1,490
Concessional taxation of non-super termination benefits	1,400
Exemption from interest withholding tax on selected debentures	1,030
Concessional rate of excise for aviation fuel	905
Total - selected large tax concessions	**36,995**

Source: Tax Expenditure Statement - 2007

There is no doubt that significant amounts of revenue can be raised, while simultaneously delivering improvements in simplicity, equity and environmental protection, through the removal of large tax expenditures. For example, the concessional treatment of fuel excise for the aviation industry is entirely incompatible with the notion of competitive neutrality between transport modes while simultaneously contradicting the governments stated policy goal of reducing greenhouse gas emissions.

Similarly, the tax concessions for superannuation, being uncapped and non-means tested, deliver the vast majority of their benefits to high income earners while millions struggle on the aged pension.

The removal or reduction of large tax expenditures would provide the capacity to significantly increase equity and efficiency in the Australian taxation system while simultaneously raising revenue to provide enhanced services to those in the most need.

5 | REFORM OF ASSISTANCE TO THE NOT-FOR-PROFIT COMMUNITY SECTOR

According to Productivity Commission estimates direct budgetary outlays to Australian industry were equal to $3.8 billion in 2006-07 with a further $2.6 billion provided in tax concessions (discussed above). The estimated total budgetary assistance to industry was therefore estimated at $6.5 billion per year. 3.8 plus 2.6 is only 6.3b

As shown in Table 4 below, health and community services account for only $95.3 million per annum in budget, which accounts for 1.4 per cent of budgetary assistance whereas, according to the ABS, the not-for-profit community sector's contribution to society is around 7 per cent of GDP. Given the potential cost to the budget, and to society, of a transfer in the provision of services from the not-for-profit community sector to the government or for-profit sector there is a strong case for increased budgetary assistance to the not-for-profit community sector, either directly, or through an expansion and/or reform of the indirect supports for the sector such as the provision of FBT concessions to employees.

see Table 4 on the following page

Table 4

Table 2.5b **Estimated budgetary assistance by industry grouping, 2006-07**
$ million

Industry grouping	*Budgetary outlays*	*Tax concessions*	*Total assistance*
Primary production	**1602.8**	**192.0**	**1794.8**
Dairy cattle farming	195.0	20.4	215.4
Grain, sheep and beef cattle farming	662.1	98.0	760.2
Horticulture and fruit growing	97.8	36.9	134.7
Other crop growing	152.0	16.8	168.8
Other livestock farming	21.3	6.4	27.7
Fisheries	296.6	8.1	304.7
Forestry and logging	63.3	-5.2	58.0
Other[a] and unallocated primary production[b]	114.7	10.6	125.3
Mining	**139.6**	**131.1**	**270.7**
Manufacturing	**798.4**	**963.3**	**1761.7**
Food, beverages & tobacco	102.8	28.2	131.0
Textiles, clothing, footwear & leather	119.5	69.0	188.6
Wood & paper products	27.5	25.5	53.0
Printing, publishing & media	17.4	6.9	24.4
Petroleum, coal, chemical & ass. products	154.5	25.7	180.3
Non-metallic mineral products	4.9	8.4	13.3
Metal product manufacturing	78.5	25.6	104.1
Motor vehicles & parts	13.6	607.2	620.8
Other transport equipment	10.5	8.4	18.9
Other machinery & equipment	100.1	44.9	145.0
Other manufacturing	124.4	9.5	133.9
Unallocated manufacturing[b]	44.5	103.9	148.4
Services	**1034.0**	**560.0**	**1594.1**
Electricity, gas & water supply	45.5	11.9	57.4
Construction	11.5	15.0	26.5
Wholesale trade	24.4	49.8	74.2
Retail trade	129.9	30.2	160.0
Accommodation, cafes & restaurants	5.1	21.1	26.2
Transport & storage	36.2	21.6	57.8
Communication services	122.3	23.2	145.6
Finance & insurance	35.0	252.9	288.0
Property & business services	208.6	115.6	324.2
Government administration & defence	4.4	0.2	4.6
Education	12.2	3.0	15.2
Health & community services	87.2	8.1	95.3
Cultural & recreational services	157.5	-1.2	156.3
Personal & other services	6.4	4.6	10.9
Unallocated services[b]	147.8	4.0	151.8
Unallocated other[b]	**302.3**	**785.5**	**1087.8**

[a] Other primary production includes *Services to agriculture* (including *Hunting & trapping)* and *Poultry farming*.
[b] Unallocated includes general programs where details of beneficiaries are unknown.

Source: Commission estimates.

Existing support

Some sections of the not-for-profit community sector currently receive assistance to help them offset the cost of employing staff in the form of Fringe Benefits Tax (FBT) concessions. In particular, under Subsection 57A(1) *Fringe Benefits Tax Assessment Act 1986* public benevolent institutions and certain public and not-for-profit hospitals can provide up to $30,000 and $17,000 per annum, per employee, in fringe benefits without attracting any liability to pay FBT.

The forecast annual cost of these FBT tax concessions is outlined in Table 5 below. The table shows that in 2008-09 the cost of the tax concessions is estimated to be $700 million per year.

Table 5

2007 Tax Expenditures Statement (TES)			
	2008-09 ($m)	2009-10 ($m)	2010-11 ($m)
Capped exemption for certain public and non-profit hospitals (exemption from FBT up to $17,000 of the grossed-up taxable value of fringe benefits per employee) *Chapter 6, Item D6 page 142 of TES*	260	270	280
Capped exemption for public benevolent institutions (excluding public hospitals) (exemption from FBT up to $30,000 of the grossed-up taxable value of fringe benefits per employee) *Chapter 6, Item D8 page 142 of TES*	440	460	480
Total	**700**	**730**	**760**

In defending the importance of the FBT concessions the Parliamentary Secretary for Social Inclusion and the Voluntary Sector, Senator Ursula Stephens, recently stated that:

> The Government will continue to find new ways to support and promote the crucial work of the staff and volunteers within the sector in helping disadvantaged Australians (Media Release, June 20, 2008).

The Uniting Church believes that the provision of the existing FBT concessions provide an essential mechanism to supplement the post-tax earnings of employees in the sector. It adds value to all the other funds raised by the not-for-profit community sector and is, in a sense, a government contribution to this work. However, the FBT system does have some weaknesses. It is inefficient, inequitable and inadequate. Some specific concerns with the current system include:

- Some community service employees miss out as their not-for-profit organisations do not have PBI status – this creates further inequity.
- By providing a partial, and indirect, subsidy to the sector via tax concessions to employees individual government departments do not face the full cost of their decisions.
- These concessions are administratively complex and lack transparency.

There is no doubt that there are net benefits to the sector, and its employees, however the use of FBT tax concessions requires the not-for-profit community sector to rely on one of the most administratively complex elements of the taxation system. The compliance burden placed on the sector diverts a significant component of the cost to the tax payer away from its intended beneficiaries and into administrative expenditure.

The FBT tax concessions are also inequitable in that many smaller community groups that could potentially benefits from the exemptions do not have the administrative capacity to access it. This means that some of the smallest organisations in the greatest need are also the least able to access the system. Further, the definition of public benevolent institutions is such that some organisations who face similar funding problems and who provide similar services may not be eligible for the FBT concessions.

Finally, while welcome, the provision of a $700 million assistance measure to a $70 billion sector is inadequate given the value of the work provided by the sector, the vulnerability of those who rely on the sector for service provision and the value of the time and other resources provided by the community at large.

6 | CONCLUSION

The Uniting Church in Australia commends the Federal Government for initiating such a comprehensive and long overdue review of the architecture of Australia's tax and transfer system.

The Church believes that Australia needs a progressive tax system that distributes wealth equitably, taxes the most wealthy at an appropriate level, and supports those people who are most vulnerable and disadvantaged in society through the provision of adequate income support and access to the services and care of a strong and healthy not-for-profit community sector.

The Church also believes that the relatively low levels of taxation revenue in Australia can and should be addressed in order that governments raise enough revenue to meet community expectations about the level and quality of the public provision of services, income support and national infrastructure.

To these ends, the Church calls on the Henry Review to examine the nature and extent of the gaps in the service delivery of Australian governments and assess the current need for increased government spending; consider the equity of the current taxation system; and examine the need to simplify, improve and increase the support provided through the taxation system to the not-for-profit community sector.