



Women's Action Alliance (Australia) Inc

Submission to: AUSTRALIAN GOVERNMENT TAX REVIEW

Date: October 2008

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Women's Action Alliance is a national women's group, established in 1975, which has active representation in each State and Territory of Australia.

Our aims are twofold

- 1. To raise the status of women in the Australian community*
- 2. To strengthen Australian families as the basis of our society*

To further these aims we encourage women to be well informed, to analyse issues, and to participate in areas where opinions are formed, and where decisions are made.

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Women’s Action Alliance (Australia) Inc is grateful for the opportunity to comment to the Tax Review Panel on various aspects of our current taxation system, particularly as it affects women and families. We have attempted to frame our remarks in the context of the stated objectives.

Terms of Reference (2) - Raising revenue should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and inter-generational) and minimise complexity for taxpayers and the community.

The current tax system raises its revenue by treating each tax payer as a simple isolated unit. This method of taxation has evolved over the past 40 years as the difference in taxation rates between tax payer without dependants and those with dependants has reduced. While this is would appear to be an efficient method of tax collection it has proved to be particularly inefficient in providing equity for families with dependants. This has lead to the current level of complexities with the government having to develop a different system to compensate for the tax system’s inability to adequately take into account equity and it’s commitment to supporting all in the community.

We believe that it is inevitable that there will be biases in any system which will impact on the social and economic lives of taxpayers and their families. In order to minimise this, the tax and transfer systems need to be as neutral as possible.

Our current income tax system, based on an individual taxpayer is inherently biased against families, a bias implicitly acknowledged in the payments to families through the transfer system.

Recommendation 1.

The basis of the tax system’s method of tax collection should not be at odds with the economic reality of the community. For equity within the tax system to be achieved it needs to acknowledge and account for the fact that the population moves through a life cycle and the vast majority will have dependants at some point throughout their working lives.

The tax system's own revenue raising practices have led to the current level of 'churning' where two different systems are used to try and achieve the equity desired by the government for all Australians.

WAA would like to propose that the current method of revenue raising, having each tax payer as a simple unit without consideration for their responsibilities, is not economically efficient or viable into the future. The government recognises the social good of families by its transfer from revenue to them. However the level of administration required to review, assess and transfer the revenue collected has become too burdensome for the community. The complexity and conflicts between the collection of revenue and transfer prevents there being a simple and adequate means to ensure equity between people who are in paid work, those with dependants and those who cannot or are not expected to earn income.

Recommendation 2.

WAA proposes that FAMILY UNIT TAXATION be considered.

This method of taxation has been discussed many times over the past number of years. The paper architecture of Australia's Tax and Transfer System Revised issued by the Tax Department discounted this method of assessment on two main grounds.

1. Individual unit taxation is preferred 'as it avoids specifying a family structure that is preferred for tax purposes' (Pg 179). This ignores the fact that specifying a family structure is exactly what is required for the transfer system. It makes no sense at all to suggest that the tax department cannot determine a family structure adequate for tax purposes when that is exactly what already exists in reality within other government departments.
2. The individual unit tax 'minimises workforce disincentives for secondary earners, such as mothers in families.' (pg 179) Is the paper suggesting that mothers in families are 'not working' or gainfully using their time in their role as mothers? Mothers or fathers who are primary carers for their children are already 'working'. The Time Use Survey of 2006 details the different hours spent by parents, primarily mothers, in caring for their children. A mother with an under 4 yr old spends 30 hours a week on primary care of the child and 86 hours a week when secondary activities were included. If the child is between 5-12yrs then they spend 40 hours a week in total caring for the child. The introduction of a family unit tax system will not change the reality of caring of children or the time it takes. It will not act as a disincentive to mothers for paid work as their time is already gainfully spent in family responsibilities. Their role in caring and nurturing their children, especially when they are young cannot be, and should not be, contracted out to others so that they can comply with expectations that they should be in the paid workforce. Government policy should be encouraging the role of parents and the building of strong families. Any policy that focuses on separating a mother or father from their children for economic gain is dubious at best.

The paper also details the support that is offered to people throughout their life cycle as needed and acknowledges that when people have children, especially young children, they receive greater subsidies.(pg 231) This is because they are not expected to be in the paid workforce. Family unit taxation accommodates all the life cycles of a family and has the potential to simplify the current tax –transfer system. This method operates currently in France and the Czech Republic and should be investigated fully to determine its suitability for our future tax needs.

Recommendation 3.

WAA recommends that an independent body assess the feasibility of Family Unit Taxation against our current taxation system.

WAA would like to focus on the impact and inequities of the current tax system on women and families:

1. Families with dependant children should all be entitled to the Family Tax Benefit A regardless of income. While the level of support can be varied according to need there should be no cut off of this payment as it is in contradiction to the very nature of the payment, which is intended to recognise in some small way the impact of the cost of raising children, and the social benefit which families provide in performing this task. **The level of income is irrelevant in this case.**

The appropriate comparison is with a taxpayer on the same level of income without dependants. Without this a high income taxpayer with several dependants (eg wife and three children) is required to pay the same amount of tax as a single high income taxpayer. This is plainly unfair **and offends against horizontal equity**. Our current system fails to recognise the costs and responsibilities of child rearing to **all** parents and to accord every child some status within it.

Even if the means testing should remain the level of income that can be earned before the cut of the FTB (A) should be raised to at least three times average earning of people with comparable dependants.

2. Similarly, there should be no means testing of the Family Tax Benefit B. This payment specifically recognises the work of the carer at home with children, who is primarily outside the paid workforce. The Family Tax Benefit B should provide some equity and recognition of their work regardless of the income of the sole taxpayer. It is especially women in their role as mothers who are most impacted by this discrimination. Recognition for her work of mothering and the social good it gives should not be dependant upon the income of her husband or partner. The means testing of and any reduction in FTB (B) carries an implicit message that the Government believes their parenting work is not valued at the same level as others in her situation. A particular level of income should not determine whether the social good of parenting should be supported or not. Parenting our children is vital activity for the community as a whole and deserves recognition regardless of income. At the very minimum FTB part B for the primary carer at home should equate to the tax free threshold.
3. The current focus on ‘working families,’ implying that both parents are in the workforce, denies the reality of parenting. Parenting is not a job that is at some arbitrary point over and the parent should return to paid work – such as when the child is 5 years old or 16 years old. Families need the ability to choose what is best for their children and if it is the Government’s intention to remove or penalize this choice such a policy should be plainly enunciated. It is plainly against equity and reduces the capacity of parents to determine what is in the best interests of their children.
4. The income test on the primary caregiver for FTB(B) is too stringent. One of the great inequities of the current system is that many families receive no benefit from either FTB(B) or the Child Care Benefit. These families, usually on one and a half incomes, structure their paid work so as to ensure that one parent is

always home with their children. This usually occurs when the secondary earner works night shifts or weekends. These secondary earners would rightly regard their main job as that of primary caregivers, or mothers.

WAA believes the current income test on FTB(B) and Child Care Benefit does not take into account the reality of many women's lives. These payments should ensure there is equity and in the case of FTB(B) be phased out much more slowly, to allow more mothers who work part time to have their primary role recognised and the Child Care Benefit be universal.

Recommendation 4.

WAA believes that the tax and family payments system needs to be reviewed to simplify it and make it more equitable for all families regardless of how they structure their paid and unpaid roles. Families need to be supported in determining what is best for themselves and not discriminated against because of that choice.

Recommendation 5:

WAA urges this panel to take into account the following principles in its deliberations:

A: All family payments and tax benefits MUST take into account the number of dependants.

B: The effect of the combination of tax and family payments should be neutral, ie: total net family income should as far as possible not be affected by the way that income is earned.

C: A major priority at all times should be the reduction of poverty traps.

D: Family payments and tax benefits should as far as possible be simplified and streamlined, taking into account the first three principles.

E: As a matter of principle, a basic family payment and/or tax benefit should be available to ALL families with dependants regardless of income.

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