

A Fairer Tax System for Single Income Families

Summary

Australia currently has the fifth most discriminatory tax system in the OECD for single income families when compared with dual income families. Single income families with similar incomes to dual income families can end up paying a vastly different amount of tax. This is a travesty when considered that family benefits are assessed on a household basis. Our system needs to change to accurately reflect the importance of the family unit as the basic economic and social building block of society.

Submission

In Australia, the family is the basic building block for both the economic and social life of the country. Why is it then that the single income families are discriminated against when compared with dual income families? For example, a single income family earning \$80,000 a year will pay, on average, \$6,000 more in tax than a dual income family earning the same total income. Why is this the case, especially when family benefits are based around the total income of a family and not simply the individual's income?

Australia's taxation system places a greater burden on single income families than most other economically developed countries. Currently, Australia is the fifth most discriminatory country for single income taxation systems in the OECD. Other countries in the OECD recognise this and as a result, approximately half of the OECD countries now allow families a joint taxation treatment between members of a family.

The current taxation arrangements take away parental choices in raising their family. Differing taxation rates between parents often becomes the basis for determining who will work and who will look after the children. Multiple studies have recently demonstrated that in many cases, full time parental care is best for young children,

and long periods in day care can be problematic for a child's development. In addition to this, families find it difficult to maximise their income especially in situations where employment opportunities are not the same for either parent or when employment is simply not available for both parents. Therefore, a fairer tax system would allow parents the right to make household decisions for their family without being forced into a particular way of acting due to the taxation and welfare system.

In order for successful changes to take place to narrow the gap between the tax treatment of single income and dual income families, three things must be kept in mind-the changes must be affordable, progressive and in no way must they disadvantage dual income families. Therefore, a proposal that would make sense would be to provide each family in Australia with two tax free thresholds. This way, all families would not have to pay tax until their household income rises above \$36,200. Currently, the Parliamentary Budget Office estimates that this policy would cost approximately \$1.5 billion a year. However, tax relief would be provided to more than 1.6 million parents.

A fairer system such as this would deliver the possibilities for more choice for parents-more choice over who works and how children are looked after. The added bonus of this is that the people in the best place to make these family decisions, the parents, would be allowed to choose what is best for their family.