Submission to the

Australian Government

Re:think – Tax discussion paper

UnitingCare Australia

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UnitingCare Australia is the national body for social services in the Uniting Church in Australia, supporting service delivery and advocacy for children, young people, families, people with disabilities, and older people

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1 UnitingCare Australia

UnitingCare Australia, the national body for UnitingCare, provides advocacy and support for the network of UnitingCare agencies operating nationally across more than 1,600 sites in metropolitan, regional and remote Australia. Our network is one of the largest providers of community services to children, young people and families, older Australians, Indigenous Australians, people with disabilities, the poor and disadvantaged, and people from culturally diverse backgrounds. The network makes a strong contribution to the Australian economy with an annual turnover in excess of $2.5 billion, employing 39,000 staff supported by the work of over 28,000 volunteers.

UnitingCare Australia works with, and on behalf of, the UnitingCare network to advocate for policies and programs that will improve people's quality of life. Our work is grounded within the theological framework of the Uniting Church, particularly the Church's social justice perspectives, and our commitment to speaking with and on behalf of those who are the most vulnerable and disadvantaged is an expression of the Christian vision of inclusion and equality of opportunity for all people.

2 Recommendations for the review

This submission provides commentary on the taxation issues that are critical to the sustainability of community services and those that UnitingCare Australia believes are vital to the health of our nation and the people we serve.

Taxation is an important mechanism which enables governments to collect sufficient revenue to fund critical infrastructure and provide the necessary services and supports so that everyone in Australia can have access to a reasonable standard of living. It also enables individuals and organisations to contribute to the well-being and stability of our society.

In response to the Re:think Tax discussion paper we recommend that the following issues are addressed by the review and included in the forthcoming options paper:

- That the taxation system must be capable of raising sufficient revenue to fund critical infrastructure and the necessary services and supports that enable all Australians to access a reasonable standard living;
- Examination of any shortfall in tax revenue from all available sources within the existing taxation system in order to identify if all potential revenue is being collected or if action can be taken to close loopholes and counter non-compliance to lift total tax revenue;
- Identification of the on-going contribution that tax revenue needs to make to a sustainable social safety net and the likely impacts of any reduction in that contribution;
- The vertical and fiscal imbalance that exists in our federation and the impact it has on the standard of living for all Australians;
- Define what simpler and fairer taxes would look like and identify for whom they would be simpler and fairer;
- Examine the interaction between the productivity and growth agendas and identify if these can counter any reduction in tax revenue to enable sustained investment in infrastructure or critical services;
- Identify how income tax taper rates can better address issues of underemployment and participation of older people in the work force;
- Develop options for a concessional tax regime which better enables all individuals to financially prepare for retirement and any aged care needs;
- An independent comprehensive review of retirement income;
- Further action to address issues of non-compliance and to close loopholes that allow domestic and foreign businesses to avoid meeting their taxation obligations in full;
- Develop a set of options to tax on-line gambling; and
- Review access to tax arrangements for charities, eligibility for DGR and PBI status.

3 Introduction

UnitingCare Australia welcomes the opportunity to participate in the national conversation about how taxation can strengthen public finances and best serve all Australians.

In responding to the Re:think Tax discussion paper we recognise that taxation is one of the most important tools governments have at their disposal to help achieve economic and social inclusivity. We believe reform of the taxation system is a moral issue as much as it is an economic issue and that the taxation system must ensure that:

- Governments fulfil their responsibilities in the provision of services to ensure that people and communities have their basic needs met;
- Governments can correct any inequitable distribution of income and access to goods, services and resources which occurs when distribution is left solely to the market mechanisms;
- Governments have the resources to help improve incentives for individuals to work and to provide support at critical transition points in their lives; and
- People contribute according to their means to the well-being of the whole nation through redistribution and the provision of goods and services.

We recognise that as a nation we can only get what can afford to pay for. If tax reform reduces revenue then governments and the broader Australian community must decide what they can and cannot afford to do and how less investment in infrastructure and services will shape future generations of Australians.

Nobel laureate Joseph Stiglitz notes in relation to growing economic inequality that "support for poor families … is an investment in the country's future".[1] We agree with this statement and it is our hope that our submission will help develop options for the taxation system to better enable government, businesses and individuals to sustainably invest in the social and economic well-being of our nation.

4 Lower, fairer, simpler taxation

It is our view that putting the parameter of lower tax around this debate may not help develop a better, more sustainable tax system which meets the social and economic needs of Australia both now and into the future. While we support looking at fairer and simpler taxation we do not support the review focusing on lower taxes.

[1] http://www.smh.com.au/comment/inequality-why-australia-must-not-follow-the-us-20140706-zsxtk.html accessed 29 May 2015

Imposing a requirement to lower the tax collected serves only to promote a particular policy position around the size and activities of government, this debate is separate to this review but can usefully inform it. Therefore, we welcome that the taxation review will be informed by the review of the federation to provide clarity about the role and responsibilities of governments across Australia.

Lower taxes will provide less revenue for government spending, which will likely translate into fewer health, education, aged care, family, disability and family services than are currently funded from tax revenue. We are particularly concerned about the impact this would have on the Government's ability to support poor and disadvantaged people and communities. We believe there must be a sustainable social safety net which provides an adequate level of income and support to those who are unable to provide it for themselves. The safety net is an important protection against poverty and a lever to increase economic participation, something primarily funded by tax revenue.

The narrative of the 2015 Intergenerational Report indicated that we are not currently collecting enough revenue to live within our means. Therefore we believe that this review must first examine how much revenue is currently raised from all sources available within the tax system and identify any shortfalls that occur because of non-compliance or loopholes before seeking to lower taxes.

We also suggest that the review is informed by the findings of the 2015 Intergenerational Report and the McClure Report to help identify the level of funding required to sustain the social safety net to help identify what proportion of that funding needs to be derived from taxation.

We believe that this review also needs to give deeper consideration to the vertical fiscal imbalance that exists in our federation. State and territory governments currently have insufficient revenue to meet the needs of the community. A broad brush approach to lower business and individual taxes will reduce an already inadequate source of funding and state and territory governments will need to decide which essential community services must be reduced or cut.

In our view fair taxes would mean that each member of the community contributes to the well-being of the nation in proportion to their capacity to do so. In order for a taxation system to be fairer it may well be necessary to increase arrangements whereby concessions can be accessed by individuals on a case by case basis. This would create more complexity in the system and likely add to administration costs.

A tax system that enables individuals and organisations to avoid meeting their tax obligations is not fair. Deliberate tax avoidance reduces the social and economic well-being of Australia and we believe that this review must seek to address tax avoidance and evasion as a priority.

UnitingCare Australia has long advocated for administration imposed on organisations and individuals by government to be simpler for all stakeholders. This includes a taxation system that is less cumbersome for government to administer and for organisations and individuals to comply with. However, we are concerned that prioritising simplicity may compromise fairness. In particular we would not want to see simplification that removed or reduced the value of concessions for low-income individuals or arrangements that enable organisations to provide more services and supports for public good.

We believe that it is necessary to provide further clarification around what fairer and simpler mean in the context of taxation and for whom it would be simpler and fairer. We are particularly interested to see the review consider if simpler tax would shift any administrative or compliance burden outside of government to tax payers.

5 Strengthening our economy

As acknowledged in the discussion paper, the Government is focusing on a productivity and participation agenda to deliver economic growth sufficient to reduce unemployment and to maintain the continuity of living standards improvements similar to the past two decades.

Despite this policy focus we know that the living standards of many families and communities are inadequate, with an unacceptable proportion of our population living in poverty. The Committee for Economic Development of Australia April 2015 report Addressing entrenched disadvantage in Australia[2] estimates that four to six percent of our society experiences chronic or persistent poverty or deprivation. It identifies that entrenched disadvantage is a significant, complicated and cumulative problem that requires a complex response. From our own experience we know the importance of sustaining that response to help people lift themselves out of poverty and maintain a decent standard of living.

We think it is necessary to examine how the productivity and growth agenda interacts with the tax system and to identify if any shortfall in tax revenue can be absorbed by that agenda.

We believe that against the backdrop of slower economic growth Australia should be seeking to increase participation rates through investment in empowering disadvantaged groups to participate in work and social life. And while we acknowledge the Government's commitment to seeking to increase this investment we are concerned that any preoccupation within the taxation discussion around lower taxes risks undermining its

[2] http://www.ceda.com.au/research-and-policy/policy-priorities/disadvantage accessed 29 May 2015

ability to make that investment and will push taxation policy away from its primary objective of serving all Australian's and closing the equity and access gaps in our society.

6 Individual taxation and savings

6.1 Income tax

Individual income tax has consistently provided around 50 per cent of tax revenue and is the largest single revenue source for government. Income tax is a relatively stable source when compared to other forms such as company tax. It has a comparatively moderate impact on the behaviour of most people with relatively minor adverse impacts on economic growth and living standards.

However the impact of income tax on individuals is not equitable and we see the greatest distortion at the lower and higher ends of the income scale. Therefore we believe that income tax policy must be centred on the principle of 'ability to pay' and applied to all individuals regardless of their age or source of income.

Close consideration needs to be given to the relationship between taxation rates, and the interplay of the tax system with employment and income support payments. First, to the relationship between taxation rates, earned income and income support payments (taper rates). And second to consider what, if any, role taxation may have in addressing the issues of underemployment and older workers pre and post retirement age.

6.1.1 Underemployment

People who rely on casual and part time employment experience changing levels of employment income on a weekly basis. Both the social security system and taxation systems need to be dynamic so that a consistent, liveable income is maintained for these people. This will ensure there are no 'poverty traps' caused by poor system interactions or by unreasonable taper rates that either increase marginal taxation rates too steeply or reduce income support too rapidly.

6.1.2 Older people in employment

Government initiatives encourage people near or beyond retirement age to continue working as they are able. This participation can deliver significant economic and social gains to individuals and their community. Taxation for employment, specifically part time employment, can further support those initiatives and rates need to be reasonable as they interact with aged pension and superannuation income so as not to provide a disincentive for employment nor to establish effective marginal tax rates that are unreasonable. Therefore we believe that there is merit in seeking to address this issue within the context of the review.

6.2 Superannuation

For most working Australians superannuation is, and will continue to be, a critical asset to fund their retirement needs. If the current trend of declining home ownership continues it will likely surpass the home as the primary asset owned by retirees.

The 2015 Intergenerational Report identifies that around 70 per cent of Australians will continue to access the Aged Pension as far out as 2055. Building mechanisms, including taxation treatment, into the superannuation system that allow future generations to make whole-of-working life contributions to meet the costs of their retirement and aged care needs would help reduce the pressure of government spending on the Age Pension and free-up resources which could be redirected to those who are unable to accumulate adequate retirement income.

The current superannuation scheme provides most of the billions of dollars of tax concessions to the highest wealth individuals. We believe that this inequality needs to be addressed to better support the future retirement income needs of all Australians. We also believe that there is merit in exploring within the scope of this review how a concessional tax regime which appropriately recognises tax already paid by superannuates can help create greater equality in the treatment of all tax payers.

We believe that taxation treatment of retirement income, both during accumulation and access, is only one aspect of issues that the Government might usefully consider in seeking to increase the capability of individuals to self-fund their retirement. Separate to the taxation review we are recommending a comprehensive review of superannuation and the mechanisms which are available to help people financially prepare for increasing longevity.

7 Corporate taxation

Businesses operating in Australia, domestic or otherwise, benefit from government investment in human capital and infrastructure and must participate equitably in the taxation system.

The discussion paper states that Australia's corporate income tax rate is higher than many countries it competes with for investment. We note that the OECD has identified that a low cost country corporate tax level cannot compensate for a generally weak or unattractive Foreign Direct Investment (FDI) environment.[3] The outcomes of inadequate investment in

[3] OECD, Tax Effects on Foreign Direct Investment – Recent Evidence and Policy Analysis, *OECD Tax Policy Studies No.17*, 2007, OECD Publishing, DOI: 10.1787/9789264038387-en, p. 13

society and infrastructure are greater deterrents to inbound FDI regardless of the corporate tax rate. A low corporate tax rate cannot compensate for poor infrastructure, the availability of an appropriately skilled workforce and a stable society.

We know that very few large corporates pay the full 30 per cent corporate tax rate. The Uniting Church Synod of Victoria and Tasmania commissioned Dr. Roman Lanis (FCPA), Associate Professor of the Accounting Discipline Group, and Ross McClure, both of the UTS Business School, University of Technology, Sydney, to examine effective tax rates (ETRs) amongst ASX listed companies. Their work found that the average ETR of companies listed on the Australian Stock Exchange between 2004 and 2013 was 20.6 per cent which is below the statutory tax rate of 30 per cent. Therefore any reduction in the corporation income tax rate will serve only to further reduce revenue and likely create a greater risk of underinvesting in society and infrastructure which are some of our key drivers for FDI.

We welcome steps taken by the Government to crack down on tax avoidance and to double the maximum administrative penalties for multinational corporations which avoid paying tax in Australia. Implementation of the OECD's new price transfer pricing documentation requirement from 1 January 2016 for multinational companies to provide country-by-country reporting of their profiles and taxes paid is a significant step forward. However further work needs to be done in the area of artificial debt loading by multinational corporations for their subsidiaries in Australia as a means to avoid paying tax.

Corporate tax avoidance harms our economy and community. The recent Senate Standing Committee on Economics' Inquiry into Corporate Tax Avoidance[4] identified there is significant tax avoidance by businesses operating in Australia which distorts taxation, competition and cross-border trade and investment. The ATO has also stated that schemes designed to avoid tax increase the burden on responsible taxpayers and deny funds for the community overall.[5] The impact of tax avoidance goes beyond the loss of government revenue as it reduces the efficiency, fairness and sustainability of tax system itself.

It is our view that simply lowering the corporate tax rate will not increase FDI into Australia and it will not address issues around tax avoidance by foreign owned multinationals operating here nor encourage greater compliance by domestic businesses. As such we believe the conversation that we need to have around corporate taxation in the context of this review must continue to first focus on compliance before considering whether or not to reduce rates.

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[4] http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Corporate_Tax_Avoidance/Terms_of_Reference accessed 27 May 2015

[5] https://www.ato.gov.au/general/tax-planning/tax-avoidance-schemes/ accessed 28 May 2015

8 New frontier taxes

The discussion paper highlights the availability of new technologies that can help to better administer and manage taxation. In line with this thinking we encourage the review to consider taxation of on-line gambling which, unlike land base gabling in casinos, clubs and hotels, is not in the domain of the states and territories.

The popularity of on-line gambling continues to grow with on-line casinos and sports betting available to almost anyone who has a connection to the internet. The 2010 Productivity Commission into Problem Gambling identified the harm this activity inflicts on our nation and the long term damage it does to families and children. That damage is the same whether gambling takes place in a casino, pub or on-line.

Whilst we acknowledge that the very nature of on-line gambling makes it difficult to regulate and complex to tax we strongly encourage the Commonwealth to rise to the challenge within the scope of this review. We suggest that consideration of a 'point of sale' taxation for all on-line gambling and wagering in Australia, (with some hypothecation for regulation and an allocation to state and territory governments specifically for gambling services and research), would be a good starting point.

Additionally, we ask that this review further considers the recommendations of the NSW and ACT tax reviews[6] to increase gambling taxes in order to increase resources to help counter the harmful aspects of problem gambling.

9 Taxation of the Not-for-profit sector

Australia's Not-for-profit (NFP) sector is made up of a wide range of structurally diverse organisations which are, by definition, driven by mission and purpose rather than for financial gain. They seek to support some of the most vulnerable and disadvantaged people in our society, often delivering services in areas where for-profit organisations choose to be absent for reasons of profit. The discussion paper acknowledges the economic and social significance of the NFP sector and the longstanding policy of successive governments to provide support to the sector in the form of tax concessions. Access to tax exemptions and concessions is managed at Commonwealth, state and local government levels and the taxation treatment of organisations varies according to the activities it undertakes and its structure.

[6] Australian Government 2015, Re:think Better tax, Better Australia discussion paper, p.149

The discussion paper states that NFP tax concessions result in significant revenue forgone and that this amount has been increasing. We believe that this argument seeks to only address the impact on revenue and does not consider the broader social benefits that tax concessions for the NFP sector deliver to our nation and the impact this has on the economy as a whole.

Tax arrangements for the NFP sector, as compared with for-profit and government providers, seek to recognise the value of the models of services delivered by NFP organisations. In considering any reform it is important to first understand and acknowledge that the envelope of existing essential tax arrangements is a resource efficient mechanism through which the Government can contribute to improving not just the well-being of individuals living in Australia but also to the broader health of the nation by:

- Supporting philanthropic donations;
- Providing salary sacrificing arrangements to enable charities to compete with the private and public sector in order to attract and retain the right staff to deliver essential social services in the locations they are needed;
- Enabling governments to further their social objectives; and
- Providing a mechanism by which the majority of taxpayers (even those who do not donate to charities) can contribute to the most disadvantaged through taxation.

We believe that effective tax arrangements for the NFP sector must:

- Help to maximise the resources available to NFP organisations for direct service delivery;
- Respect the independence and diversity of the NFP sector;
- Reduce the administrative burden whilst upholding the principles of transparency and openness;
- Appropriately address abuse or misuse of existing arrangements;
- Introduce mechanisms for tax arrangements to retain real time value; and
- Align with reforms to welfare, health, education and competition policy.

9.1 Access to NFP tax concessions

The current envelope of support provided through tax arrangements for the NFP sector is made available to a broad range of organisations which includes charities, scientific and religious organisations, public and NFP hospitals and organisations that promote animal racing, art, games, sport, literature and music.

We suggest that a primary step in reviewing the taxation treatment of the NFP sector be to consider what organisations retain access to these arrangements and what organisations should no longer access them. For example, some public sector employees can access taxation arrangements targeted at the NFP sector employees.

9.2 Deductible Gift Recipients

The Statutory Definition of Charity has reduced much of the previous complexity in determining whether or not an organisation is deemed to be a charity and the relevant tax concessions that it can access.

Based on the experience of the UnitingCare network we find that deductible gift recipient (DGR) status helps to maximise donations given to our agencies. The reputation of a UnitingCare agency, based on direct contact and its relationship with the community, is more often than not the primary driver for an individual's decision to make a donation.

In our experience DGR status is an important tool to encourage donors to increase the amount they give and we supports retention of the current arrangements. However, as stated above, would be open to a review of the organisations that can access it.

9.3 Fringe Benefits Tax

UnitingCare Australia acknowledges that Fringe Benefit Tax (FBT) arrangements can be complex and burdensome to administer. Like others in the NFP sector many UnitingCare agencies outsource the administration of FBT to specialist businesses. Despite its complexity, the FBT concession is a significant and important mechanism which enables many NFP organisations to better utilise funding from all sources of income to deliver more frontline services to those in need.

The main input cost for our agencies in delivering community services is labour. The key elements to ensure the quality of those services are workforce skills and retention. The loss of the FBT arrangements, without an equivalent replacement, would result in the removal of a significant proportion of indirect funding leading to a reduction in service delivery, employment and the net pay of staff. We estimate that employment costs account for between 65-75 per cent of total expenditure for our agencies. Removal of the current FBT arrangements would result in an increase in salary costs in the order of 8-10 per cent which our agencies would need to cover in order to retain and attract an appropriately qualified workforce. Our agencies are simply unable to absorb this projected increase in payroll costs without making significant cuts to services and workforces.

UnitingCare Australia is aware that not all organisations and employees use FBT arrangements in a manner which is consistent with the initial policy intent and we believe that any misuse of any of the tax arrangements for the NFP sector should be appropriately dealt with. We acknowledge the 2015 Budget measure to cap the salary scarified meal entertainment and entertainment facility leasing expenses for eligible employees but we are cautious about the application of any wholesale changes to existing FBT capped arrangements that may negatively impact on the sector as a whole.

Taxation arrangements for the NFP sector were introduced to help support organisations and individuals who do public good to do more of those activities. Wholesale action to change those arrangements will impact on the entire sector and the people it serves rather than only on those organisations and individuals who seek to misuse the arrangements. Therefore we suggest that this review further considers tightening up access to taxation arrangements for the NFP sector and direct action to address specific instances of misuse before looking at any such whole sale changes.

9.4 Public Benevolent Institutions

PBI status confirms that the services provided by a charity support people in need of relief and that the main purpose of their work is to relieve poverty, sickness, suffering or disability. PBI status is granted by the Australian Charities and Not-for-Profits Commission (ACNC) in recognition that the work of an organisation is directly for the public good. This position can be endorsed by the ATO to access income tax exemption, GST concessions, the FBT and DGR status.

The discussion paper states that the actual revenue lost from NFP concessions cannot be quantified. We would argue that the actual economic and social benefits cannot be quantified because PBI status and the associated taxation concessions are a multiplier which enable organisations that do good for our communities to do more with the resources they have rather than seeking increased funding from the public purse.

It is our view that the discussion paper may be misleading because it presents PBI status as creating a significant amount of lost revenue without and

We are concerned that the discussion paper may be misleading because it presents PBI status as a mechanism which distorts the economy through lost revenue and one that hampers competition. We ask that the review and future papers identify the benefits of PBI status in helping to deliver better societal and economic outcomes for our nation.

Further, the issue that we believe first needs to be addressed around PBI status is one of eligibility and access along with consideration of how both the ACNC and ATO manage the PBI status of charities on an on-going basis.

9.5 Competitive advantage

We do not believe that taxation arrangements for the NFP sector, when accessed correctly and in-line with the founding principles of the underpinning policy, distort competition between NFP and for-profit providers of community services.

Competitive neutrality has often been raised as a concern about NFPs accessing certain tax concessions. However the evidence of the concessions' impact on competition is at best weak. There is little evidence to show that charities with access to FBT or tax concessions use them to grow market share at the expense of for-profit entities. Indeed there is evidence to the contrary where for-profits enter a market with a loss leader model so as to displace established NFP service providers. Further, as we see with the provision of aged care and other like services, for-profits will rarely establish a presence in rural/remote or other low margin areas.

10 GST

It is our view that any consideration given to changing the GST rate or coverage must be done with the full and transparent understanding of any impact on the most vulnerable and disadvantaged in our communities and with a view to developing measures and mechanisms that seek to mitigate that impact.

11 Conclusion

Action by the Government to review and improve taxation in Australia in consultation with the nation is to be welcomed.

However, we believe that further consideration needs to be given as to importance of tax as a means to further both the economic and social well-being of our nation and to identify how any changes to the existing system, particularly those that would lower revenue collected through taxation, will impact upon that well-being.

In our view it is important to outline within the context of this review what lower, simpler and fairer taxes will mean for all taxpayers. In particular to identify any impact on investment in infrastructure, health, education, aged care and other social services. This information will empower individuals and organisations to make a more informed contribution to the review and to better communicate their priorities and ideas in order to help improve taxation in Australia.

The recommendations made on page four of this submission seek to prompt further consideration within the context of this review of issues that we believe are important to the social and economic well-being of our nation; in particular the most vulnerable and disadvantaged members of our communities.