



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

UnitingCare Wesley Adelaide - UnitingCare Wesley Adelaide was established at the time of federation to address issues of disadvantage in South Australia. We have a long and proud history of achievements in a range of areas including addressing poverty, assisting people who are homeless, supporting older people in their homes, counselling, drug and alcohol rehabilitation and support for people with disabilities.

ACOSS - The Australian Council of Social Service is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

STATEMENT OF PRIORITIES

1. Priority Reform Directions and How they should be financed

Opportunity exists for tax and transfer reforms which substantially improve fairness for all Australians. In order to achieve this outcome changes are required to ensure our taxation arrangements are more progressive, reducing loopholes and mechanisms which allow higher income earners to avoid taxation obligations and on the other side of the equation reducing the taxation burden on low income earners. From a transfer and payment perspective, reforms are required which both simplify the current overly complex payment arrangements, discourage movement from payment/benefits to paid work and ensure all payments allow recipients to live a decent life.

Taxation Reforms

- Whilst an argument might be made for simplifying current personal tax rates this shouldn't be traded for more progressive tax arrangements. Tax rates should be set in a manner which collects an increased proportion of income as incomes increase but which allow sufficient incentive at the lower end of the income scale to encourage take up and retention of paid employment together with incentives to increase earning potential in the middle income ranges. Recent government treatment of the imposition of the flood levy and proposed carbon price taxation changes are both examples of well targeted taxation revenue policy. They have both served to focus on maximizing revenue from those in the best position to pay whilst protecting those on more modest incomes.
- The general direction of taxation reform, to both ensure greater equity AND to increase revenue for the purpose of redistribution via the transfer system and government funded services – is to broaden the base. To this end there are some obvious targets which will



TAX FORUM

4-5 October 2011

remove historical benefits which have had perverse impacts and significantly reduced the government's capacity to raise revenue.

- a) A fairer treatment of superannuation taxation is required if we are to ensure more people on lower to modest incomes are able to save sufficient funds for their retirement whilst reducing the overly generous benefits for high income earners. This includes taxing contributions at their marginal tax rate beyond a more modest cap and ensuring caps are maintained to avoid taxation avoidance for high income earners. More generous tax breaks should remain for low income earners who choose to contribute together with co-contribution payments from government to incentivise individual contributions for low income earners.
 - b) Reducing benefits currently available through such schemes as 'negative gearing' to reduce capital gains tax exposure and FBT breaks on company vehicles. The former benefit contributes to an overheated housing market (making housing less affordable) but also unfairly advantages those in a position to invest in housing (other than their own residence) by reducing their tax exposure. These measures will not only increase the fairness of the taxation system but also help to offset the increased costs incurred through a more generous and evenly applied transfer payment arrangement (as outlined below).
- The removal of the LITO and replacement with a higher tax free threshold limit and exemption of social security payments from taxation are important measures to increase the incentives for government allowance recipients to take up and keep employment opportunities. Once again the Government's proposed compensation package to accompany the implementation of a carbon price has sought to address this issue at the lower end of the tax scale which is a positive measure.

Transfer Reforms

Australia's current pensions and income support payments regime requires a significant overhaul if it is to achieve its aim of providing adequate levels of support for recipients to live a decent life and provide opportunity and incentive for those able to work to gain and keep employment. There are 5 main reforms required with the majority of resourcing required to enable their implementation coming from changes to taxation arrangements outlined above (together with other 'business' tax measures such as the imposition of a mining tax as outlined in the Henry report)

- Fix the current anomalies between levels of payment, particularly between pensions and allowances, which have served to create poverty traps for many reliant on allowances such as Newstart. Recent increases in pension payments have been welcome and warranted given cost of living pressures but have only served to reinforce the gross inadequacy of many income support payments which have not risen proportionate to pension payments. Inadequate payment levels create hardship for many individuals and families and increase their reliance on 'secondary' welfare services and assistance provided by community service agencies. This is neither a fair or efficient arrangement for assisting those in need of government assistance and fails to serve as an incentive to find work if that remains as one of the justifications for keeping certain allowances at below poverty rates.



TAX FORUM

4-5 October 2011

- The current 'transfer' system remains overly complex placing administrative burdens on those needing to manage payments and creating confusion for recipients. A better system would be to strike, based on solid evidence, a base rate of payment which met the requirements of an agreed 'minimum standard' of living. This would form the base for all payments, regardless of whether they be a pension or an allowance. This base rate could then be added to with supplements linked to additional cost of living pressures expected by certain groups of recipient (i.e. those experiencing a disability, people with chronic health issues etc). Such a system would be fairer and easier to administer.
- Ensuring the base rate of payment is indexed according to rising living costs and supplements are also increased in line with associated cost hikes. Indexation rates should not be applied differently across different categories of recipient unless the cost of living increases are variable (refer attached tables highlighting the different treatment of pensions and allowances over a 10 year period compared to cost increases of essential services over the corresponding period).
- The removal of income tests for access to payments which serve to discourage people moving to and retaining paid employment. Payments must be targeted to low income households rather than having a universal application. However, particularly as recipients move to low paid employment, the retention of some form of payment for a period to both facilitate the transition to work (and defray associated expenses such as transport) and motivate people to return to work (where the financial incentives may otherwise be minimal) has merit. This would need to be carefully calculated and applied to ensure fairness for other low income workers with the overall costs largely offset by lowering the number of people reliant on full-time benefit payments.
- Negotiable activity requirements based on individual's circumstances. This would allow those currently on pensions who are able to work to have appropriate activity obligations instigated to facilitate their movement into paid work, even if that is on a part time basis. On the other hand those with major barriers to paid work should not be subjected to onerous and unreasonable expectations based on a formulae where there is no evidence base to support such actions leading to the securing of paid employment.

2. Regulation and Taxation of NFP's

Following the recent Productivity Commission report on the NFP sector it is encouraging to see a number of actions being undertaken by government to improve the regulatory framework for NFP's. The establishment of an independent national regulator for NFP's is a priority. Such a regulator would help to ensure a greater level of consistency in the way in which definitions of charity are determined and NFP's are regulated in relation to their activities and reporting arrangements. Whilst there will be some cost in establishing such an entity this should be more than offset by reductions in such bodies and functions currently managed at a State/Territory level.

Simon Schrapel

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Australian Government



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TAX FORUM

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LIST OF ATTACHMENTS

Attachment 1: Allowance & Pension Payment Rates March Qtr 2000 – 2010

Attachment 2: CPI Subcategories 2000 - 2010