

Submission

on the

Re:think Tax Discussion Paper

to the

Tax White Paper Task Force

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1. Introduction

On 30 March 2015, Federal Treasurer Joe Hockey MP released a tax discussion paper covering a wide range of tax-related issues.

FamilyVoice Australia is a national Christian voice – promoting true family values for the benefit of all Australians. Our vision is to see strong families at the heart of a healthy society: where marriage is honoured, human life is respected, families can flourish, Australia’s Christian heritage is valued, and fundamental freedoms are enjoyed.

We work with people from all major Christian denominations. We engage with parliamentarians of all political persuasions and are independent of all political parties. We have full-time FamilyVoice representatives in all states.

FamilyVoice has a long history of addressing the issue of fairness for family benefits.

Submissions are due 1 June 2015.

2. Discussion questions

The discussion paper lists a broad range of topics including: challenges for Australia’s tax system, the tax system and individuals, tax and the not-for-profit sector and also tax system governance.¹

The family unit and taxation is the primary focus of this submission.

3. General principle: family is the basic unit of society

Before addressing the discussion questions it is important to consider a basic principle that applies to government interaction with families and the role played by the taxation system.

Families are the basic unit of society. They are responsible for socialisation, economic activity, emotional nurturing and reproduction, all of which are essential for a functioning society. The Australian Bureau of Statistics provides a workable definition of family as “a group of two or more people that are related by blood, marriage, adoption, step or fostering who usually live together in the same household”.²

The Universal Declaration of Human Rights (UDHR) and the International Covenant on Civil and Political Rights (ICCPR) recognise the importance of the family. The UDHR states: “The family is the natural and fundamental group unit of society and is entitled to protection by society and the state.”³ The ICCPR also affirms this principle.⁴

The emotional support and nurture provided within the family unit are essential for healthy development. The first exposure to love and nurture comes from the family and by this process important emotional bonds are created. Deprivation of emotional support from the family unit in the early stages of life can lead to children who are immature, insecure and educationally adrift.⁵

4. Discussion Questions

4.1. Questions 5 and 6

Q5. What parts of the tax system are most important for maintaining fairness in the tax system? Are there areas where fairness in the tax system could be improved?

Q6. What should our individuals income tax system look like and why?

The family is not only the basic social unit of society; it is also the fundamental economic unit. This is apparent across societies and time. Families share resources internally and expend resources as a single unit externally. This concept has been standardised by Nobel Prize winner in Economics, G. S. Becker, who argued that the household acts as a single decision maker.⁶

Families witness the sharing of food, bills, utilities, shelter and resources. This means that income earners provide for the household and sharing of the costs of living occurs. When financial decisions are made the vast majority of finance goes towards mutually beneficial items such as housing, food and transport – these three categories alone taking up 51% of the average expenditure of households.⁷ The income-pooling hypothesis describes this income sharing within a family. This has largely been a staple economic principle since the 1970s.

Breaking up families into individual units for taxation purposes ignores the reality of families functioning as economic units. This not only breaks up families for tax purposes, but also breaks up families in their social context, placing unwelcome restrictions on how they arrange their affairs.

An alternative to Australia's highly individualistic tax system can be taken from France. The "French quotient system" divides the family income between all members of the family for tax purposes.⁸ The system then taxes all family members minimising the impact of higher tax rates associated with higher income levels.⁹

The French system of family taxation is significant because it removes the inequity of taxing single income families more heavily than dual income families.

France's system also provides benefits to parents who choose to care for children fulltime or work less in order to do so part-time. The supplement for "free choice of working time" (CLCA) and "optional supplement for free choice of working time" (COLCA) are the two benefits that directly assist parents staying at home to look after their children.

These non means-tested allowances are paid either as a separate benefit or, when the parent fulfils the income conditions, on top of the basic allowance. It is payable from the first child's birth and is conditional on the parent having worked for at least two years during a given period which will depend on the child's order of birth in relation to their siblings.¹⁰

The CLCA and COLCA supplements are examples of the French government recognising the importance of the family and creating social policy that enables a parent to stay at home and raise their children. By removing some of the economic constraints, parents are enabled to make informed decisions about what is best for their family.

Answer to questions 5 and 6:

The Australian taxation system should recognise each family as an economic unit and allow pooled family income to be shared among family members for income tax purposes.

4.2. Question 9

Q9. To what extent does taxation affect people's workforce participation decisions?

The current taxation system creates disincentives to mothers choosing to provide care in the home over paid employment. The system makes negative assumptions about the value of unpaid work within the home and in broader society.

The role of unpaid work in the home is an essential part of the overall economic activity of the family and the nation. Sadly, however, some economists perceive unpaid work as having little or no economic value. They say that improving the economy is achievable only when both parents are paying taxes and are partaking in paid work.¹¹ This view undermines the importance of unpaid work and ignores the reality that the family is the fundamental economic unit of society.

Senior Fellow at the Centre for Independent Studies Barry Maley recognises the value of unpaid family work. He questions why paid work holds a higher social value and points out the importance of the socialisation and education of children. Furthermore, he notes the importance of children for the future and the significant role they will play in contributing economically. He states:

There is no good reason why production in the market should be accorded higher value or importance than home production and child rearing. Productive labour in traded goods and services and the growth of human capital depend for their continuance upon the regeneration, socialisation and education of those who will be workers in the future.¹²

Patrick Byrne and Tempe Harvey from the Australian Family Association highlight the value of unpaid work within the family in areas such as childcare and community services. They note that the 2010 Senate report on Paid Parental Leave (PPL) omitted any reference to the value of unwaged family, childcare and community services. Byrne and Harvey state:

This omission implies an assumption in both reports that the unwaged work done principally by mothers (but also by some fathers) in the home has no economic value. Rather, the prevailing trend in economic analysis assumes that the economy is best stimulated when both parents are in paid work and paying taxes.¹³

Byrne and Harvey point out that when a parent chooses to undertake unpaid work they are allowing the family to provide their own social services, which include childcare. Furthermore, they argue that this unpaid work represents a substantial saving to the welfare bill of the state, since services such as childcare require state support.¹⁴ This is an important observation and reinforces Maley's view that measuring economic output solely by GDP ignores important contributions made to society by parents (and others) who undertake unpaid community and household work.

Answer to question 9:

Families should have the freedom to make their own decisions about employment – without government pressure created by the taxation system. Equal support should be provided to families to help balance home and work responsibilities.

4.3. Question 58

Q58. What system-wide approaches could have the greatest impact on reducing complexity in the tax system? Why have previous attempts to address complexity in the Australian tax system not succeeded? How might it be done in a way that is more successful?

High taxation and excessive welfare services lead to market inefficiency. Therefore, reducing tax levels and welfare services is one key way to increase efficiency. The large administrative costs of collecting taxes and delivering welfare services can be substantially reduced by providing family benefits through income tax rebates. The more money that stays with the family, the less that is lost through “tax-welfare churn”— the practice of taxing people then returning those taxes in the form of welfare payments.¹⁵

The significance of tax-welfare churn should not be underestimated. Andrew Baker, Policy Analyst at the Centre for Independent Studies (CIS), observes:

“Of the \$316 billion spending on the welfare state, approximately half, or \$158 billion, can be attributed to tax-welfare churn”.¹⁶

Reducing this wasteful churn would achieve billions of dollars in savings. One way of reducing tax-welfare churn would be to replace all government expenditure on childcare with rebates to taxpayers.

Currently in Australia, a wide range of parenting and child related payments are available to parents. These include Family Tax Benefits (FTB), Paid Parental Leave, Schoolkids Bonus, Child Care Benefit and the Child Care Rebate.¹⁷ CIS Senior Fellows Peter Saunders and Barry Maley recommended reforming this system by raising income tax thresholds and introducing a non-means tested Child Tax Credit to replace the current means-tested family payments.¹⁸ This would amount to several thousand dollars per child per year. The aim is to make it easier for families to use their own money to raise their children.¹⁹ Helping families to be self-supporting is a worthy goal.

Answer to question 58:

Wastage associated with tax-welfare churn should be minimised and families assisted to be self-supporting by replacing the existing system of childcare subsidies and benefits with a single income tax rebate for all families raising children.

5. Conclusion

The family is the fundamental social unit of society. Families provide the love, nurture, care, support, provision and upbringing that children need. Children learn acceptable behaviours in families so they can grow into responsible participants in society.

The family is also an economic unit, where resources, shelter, food and skills are shared for mutual benefit.

The taxation system should remain neutral regarding the decisions families make about childcare and early childhood education for their children. An unfair taxation system should not pressure families to place their child into institutional childcare and forcing the mother to work. Instead, families should be able to make their own choices, as they are best placed to know their own circumstances at any given time.

Families should be given maximum flexibility in determining their preferred childcare arrangements by providing family benefits directly to parents and ending subsidies of childcare providers. Economic efficiency should also be maximised by providing family benefits as income tax rebates, thereby reducing the waste accompanying tax-welfare churn.

The family support system implemented by France recognises the family as a vitally important economic unit. They allow families the choice of having one parent stay at home to raise their child. They recognise the economic value of the work done within the home by the mother or father and the substantial contribution that this makes to society. These family support models should be carefully considered for introduction to Australia and the taxation system should be reformed accordingly.

6. Endnotes

¹ <http://bettertax.gov.au/publications/discussion-paper/>

² *Family Characteristics Survey: Summary of Results, 2009-2010*. 4442.0, Australian Bureau of Statistics, 27 May 2011, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/4442.0Main%20Features22009-10?opendocument&tabname=Summary&prodno=4442.0&issue=2009-10&num=&view=>

³ Universal Declaration of Human Rights, Article 16(3), United Nations 1948, <http://www.un.org/en/documents/udhr/>

⁴ International Covenant on Civil and Political Rights, Article 23, United Nations, 1966, <http://www.ohchr.org/en/professionalinterest/pages/ccpr.aspx>

⁵ M. L. Pringle, *Deprivation and Education*, 1972, in Pruden, Edward (ed.) *Education: Annual Review of the Residential Child Care Association* (19) pp. 16-24.

⁶ G. S. Becker, *A Treatise on the Family*, Harvard University Press, 1991.

⁷ Australian Bureau of Statistics. "Household Expenditure Survey, Australia: Summary of Results, 2009-10", 6 September 2011, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6530.0Main%20Features2200910?opendocument&tabname=Summary&prodno=6530.0&issue=2009-10&num=&view=>

⁸ "Family Income Sharing", *Light*, Australian Festival of Light, August 1996.

⁹ Ibid.

¹⁰ “The French Social Security System - Family Benefits”, CLEISS,
http://www.cleiss.fr/docs/regimes/regime_france/an_4.html

¹¹ T. Harvey and P. Byrne, “The Need for an Overhaul of the Family Benefits System”, *AFA Journal*, 31.2 1 July 2010, p. 52.

¹² B. Maley, “Families, Fertility and Maternity Leave”, *Issue Analysis* 24, 16 September 2002, p. 11.

¹³ Harvey and Byrne, 52.

¹⁴ Ibid.

¹⁵ Andrew Baker, *TARGET30—Tax-Welfare Churn and the Australian Welfare State*, Centre for Independent Studies, 1 March 2013, <http://www.cis.org.au/images/stories/target30/t30.02.pdf>

¹⁶ Ibid.

¹⁷ P. Saunders and B. Maley, *Tax Reform to Make Work Pay*, Perspectives on Tax Reform (3), Centre for Independent Studies, March 2013, p. 28, <http://www.cis.org.au/images/stories/target30/t30.02.pdf>

¹⁸ Ibid.

¹⁹ Ibid.