**Fair Tax for Families:**

**Submission in response to the *Re:Think* white paper on tax reform by Lyle Dunne**

**Introduction**

The purpose of this submission is to express support for family tax proposals to redress the disadvantage suffered by single-income families, and families where one partner earns most of the income.

This has been a longtime concern with our tax system, an area where Australia has lagged behind other nations.

However the position has been greatly exacerbated by bracket creep, and in particular the increase in the tax-free threshold in 2012-13 from $6000 to $18000 (now effectively $20,452, as the White Paper notes). Public funding of childcare further shifts the balance toward two-income families.

I see this issue as mainly relevant to the White Paper’s Discussion Question 5:

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?

I note however the Discussion Questions are mostly formulated in terms of “the individuals*[sic]* income tax system”, a question-begging approach which reflects the prejudices of the Commonwealth Public Service in this area.

This is discussed further under *Family Tax and the White Paper* below.

**Rationale for Family Taxation**

The basic argument is straightforward: income tax should be levied according to the taxpayer’s capacity to pay, and individual gross income, without consideration of the needs of dependants, is not a good measure of this capacity.

But this needs a little expansion.

It’s true that a taxpayer can enter voluntarily into commitments which limit his or her capacity to pay tax, but which the tax system rightly disregards. However commitments to one’s family are of a different and higher order.

There are two principal reasons for this.

First, the rearing of children, obviously essential to the preservation of our society let alone our economy, is universally acknowledged to be the responsibility primarily of families. Governments can and do provide some assistance, and can in rare circumstance take over, but this is clearly exceptional: the state lacks the capacity to do this in any but a small minority of cases. To exercise this function a family needs resources, and these claims on a family’s income, affecting as they do the viability of the family and society, are logically prior to those of the wider society.

This in my view is the rationale for a tax-free threshold: the cost of feeding, clothing and housing a family at a basic level ought to be quarantined from income tax, and families whose income is at or below this level should not pay income tax. Naturally this cost depends on the number of persons in the family.

Second, dependants are people, and they have rights to be considered too. In the case of a family where the husband is employed and the wife cares for the children, both are making a contribution to the family, and the income earned really belongs to the family as a whole, not just to the breadwinner. It isn’t his to spend as he sees fit: he has a moral and indeed a legal obligation to provide for his family. (Our legal system recognises the family’s claim on the breadwinner’s property – but mainly in the case of divorce, rather than for intact families.) Treating this income as an unencumbered entitlement of the breadwinner amounts to treating the dependants as chattels, as the Roman *paterfamilias* was to considered to own his children and slaves, with the power of life and death over them. This approach is utterly inimical to the idea of universal human rights on which our society is built.

There is, in addition, a significant inconsistency if not outright hypocrisy in having a welfare system that assumes that families support each other financially – excluding spouses of the employed from claiming unemployment benefit, and assuming that young adults are supported by their parents – and a tax system that treats everyone as individuals. It looks like the government treats people as individuals or family members depending on which is to their (the government’s) financial advantage.

**Family Tax and the White Paper**

The view of family taxation within the Commonwealth public service is further borne out by the dismissive approach in the White Paper itself, which notes that the system is “sometimes seen as unfair” in its treatment of families, without evaluating this claim; instead, it merely points to the fact that providing a second tax-free threshold only to working partners creates an incentive for them to seek work.

It’s true that the trade-off between fairness and incentives bedevils any effort to create a principled tax (or tax-and-welfare) system. It seems reasonable that such a system should contain a prejudice in favour of paid employment where the alternative is welfare dependency: paid employment, unlike welfare, is beneficial to the dignity of the individual, and the community is relieved of the burden of welfare payments.

In the case of the child-caring parent with an employed spouse, however, there is no welfare cost involved (since the welfare system recognises family responsibilities!) and the rearing of children is considered by most – particularly those engaged in it – as a vocation of equal dignity to paid employment. There is thus no reason why the taxation system should contain artificial incentives for such persons to enter the paid workforce.

Whether a family chooses to have one partner caring for the children full-time while the other works forty hours per week, or to have each partner work twenty hours per week and care for the children while the other partner works, should be a matter of indifference to the Commonwealth. It is simply unfair that one of these couples receive two tax-free thresholds, and the other only one.

**What Family Taxation is not**

There are a number of misconceptions about the nature of family taxation.

It is not preferential treatment for families with children, or for single-parent families: I am not, for example, arguing here that they should pay less tax because of their role in providing for the future of our society and economy (even though anyone looking at societies like Japan might conclude that’s worth thinking about). Nor am I arguing that children are better off being cared for by their parents than in paid childcare. (I do however think that there is no evidence that it’s *worse* overall for children to be cared for by their parents, so policies that create an artificial incentive in the opposite direction, toward outsourcing child-rearing, are misguided.)

Family Taxation is not a spending measure, since it affects only inputs (and can be implemented revenue-neutrally).

It is therefore not a welfare measure. Recent governments have muddied this distinction (for cynical political reasons) by introducing measures such as Family Tax Benefit part A and B, which return some of the tax unjustly collected from families in the guise of a welfare measure, complete with means testing. It is not in competition with programs to aid the needy. (Though it may obviate some of these, and in the process increase efficiency by reducing the amount of churning.)

As a matter of horizontal tax justice, families in similar financial positions should pay similar amounts of income tax. This is simply a matter of adjusting the balance between families on the same income whose income is distributed differently between the members. It has nothing to do with

* the balance between direct and indirect tax (although I would note that although consumption tax appears flat, it has disproportionate impacts on families with children, who spend a greater proportion of their income, and save less);
* the balance between tax and spending: whatever level of revenue the government in its discretion decides is necessary should be collected equitably; or
* the balance between redistribution and incentives: whatever slope the government decides the tax graph should have – how many marginal rates, and what they should be – is independent of the need for equitable treatment of taxpayers within those strata.

**Conclusion**

Family taxation is simply a proposal for the income tax system to be neutral in its treatment of families, taking account of their total income and not how it is distributed between the parents.

I therefore urge the government to give serious consideration to issue of family taxation, whatever else it does in relation to the tax system.

Lyle Dunne