

Re:Think Discussion Paper

Submission by

economic Security4Women

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# Introduction

economic Security4Women (eS4W) is a national women’s alliance, funded by the Australian Government through the Office for Women in the Commonwealth Department of Prime Minister and Cabinet.

It is an alliance of women’s organisations united in the belief that economic wellbeing and financial security are essential for women and will enable women of all ages to have an equal place in society.

eS4W advocates for change to policies which continue to impact negatively on equality for women and their ongoing economic security.

Through advocacy eS4W is determined to:

* promote women’s (actual and potential) role in the economy
* achieve equal pay rates for women and narrow the gender pay gap
* improve women’s access to relevant and affordable education and training
* improve the provision of appropriate working conditions for women that enhance their career advancement within employment
* increase the application of a gender perspective to public policy and budgetary processes
* improve women’s access to sustainable employment and business enterprise
* improve women’s access to financial planning
* narrow the gender gap in superannuation/retirement savings
* improve women’s access to affordable and accessible childcare (including out of school hours and vacation care)
* improve, across all regions (in particular rural and remote areas), women’s access to information and communications technology
* increase awareness of and reduce the rate of gender based discrimination in employment and of occupational segregation
* improve women’s financial security through control over economic resources and income for retirement

It is from this position that we make our submission to the Treasurer on some of the issues raised in the tax discussion paper. We approach Tax reform as a key part of the Government’s policy agenda to build and extend jobs for women, for growth that will benefit women and opportunities for women and their children.

## Opening remarks

An over arching response to the Treasurer:

* firstly, we look to the Australian Government for the elimination of gender bias in taxation and budgets and
* secondly, while appreciating that the discussion paper will be followed up by a green paper that contains options and then a white paper with proposals to be taken to the next election, we ask why this paper does not include discussion of proposals from the Henry Review. eS4W was involved in submissions to the Henry Review and given the report on [**Australia’s Future Tax System**](http://taxreview.treasury.gov.au/content/content.aspx?doc=html/pubs_reports.htm) was released less than five years ago, and was followed by the Tax Forum in 2011, it does not seem unreasonable to be asking the government to build on this existing work.

### Eliminating gender bias in taxation

We look to this review of taxation to eliminate gender bias. Implicit gender bias occurs where tax legislation intersects with gender relations, norms and economic behaviour[[1]](#footnote-1). For example, because gender norms allocate a greater portion of unpaid care work to women than to men, women tend to use larger portions of their income on basic consumption goods such as food and clothing. Systems that impose a tax on the consumption of basic goods, and services, for example the GST in Australia, may place a heavier tax burden on women.

There are a number of other implicit gender biases in personal income tax systems. These tend to relate to work-related exemptions and deductions that benefit professionals and those in formal employment— exemptions for which men, predominant in that type of employment, are more likely to be eligible.

Tax codes can also show implicit bias in the treatment of assets. For example, the tax codes of Argentina, Ghana and South Africa provide exemptions for interest or dividend payments on stocks and equities, assets that men are more likely to own than women.

Taxation, like Gender-responsive budgeting (GRB), can contribute to the advancement of gender equality and the fulfilment of women’s rights. It can also identify and reflect needed interventions to address gender gaps in government policies, plans and budgets.

This implicit gender bias framework is limited, however, because it is based on the idea that bias stems from treating women and men differently and that a nonbiased system would treat them the same. However, achieving **substantive gender equality** often requires women to be treated differently.

Different treatment is not necessarily biased treatment. For example, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), to which Australia is a signatory, allows for different treatment when the treatment is aimed at overcoming discrimination.

Thus, CEDAW implies that taxation systems should, in addition to treating women as equal and autonomous citizens, also seek to transform traditional gender roles in society.

As stated above, we argue that tax reform must be examined through a gendered lens to identify any impact that change may have on women. Negative economic impacts on women are often the result of policies and programs that are gender blind: their design is not informed by the recognition of the different effect that policies have on women because of the different circumstances of women’s lives. In particular:

* Women are overrepresented among lower paid and or casual workers.
* Women are more likely than men to experience interruptions to their working career as a result of caring responsibilities and as a result, are less likely to enjoy the similar career promotion trajectory as their male colleagues.
* Women are more likely to earn less than men with the gender pay gap around 18 per cent.
* Women are more likely to have less retirement savings than men and more likely to live longer than men. In addition, some women are more likely to retire earlier than men, in order to retire with their male partner.

Therefore policies that impact negatively on lower income earners, or that allow higher tax benefits to wealthier members of the community, are more likely to disproportionately affect women.

# specific response to discussion paper

## 3 Individuals

### Implications for labour supply: Potential workforce participation disincentives

Discussion question 9. To what extent does taxation affect women’s workforce participation decisions?

#### Effective marginal tax rates

eS4W is very concerned that the impact of the transfer system and EMTRs on women’s workforce participation has not been adequately addressed in this discussion paper. As found in the 2010 Tax Review, ‘effective tax rates can be high for some people, including for those likely to reduce their level of work as a result’.

As noted in the discussion paper, women are often the secondary income earner in Australian households and their workforce participation rates are highly responsive to effective marginal tax rates (EMTR). EMTR is the percentage of additional income lost due to the withdrawal of means-tested benefits such as Parenting Payment, Family Tax Benefits and the additional income tax payable as a result of working. A higher EMTR may discourage women’s workforce participation. While outside of this ‘rethink’, the cost of childcare and the rebate available are often included by women when calculating their EMTR: their additional income lost due to the withdrawal of benefits.

This interplay of tax rates and the transfer system on the workforce participation of women needs to be examined in light of Australia’s commitment to reduce the gender gap in the rates workforce participation by 25 per cent by 2025.

Furthermore, the transfer system cannot provide effective support if the taxation system does not raise sufficient revenue to provide adequate benefits to support those in most need and women are more likely to rely on income support though these transfer payments, whether in the form of the age pension, parenting payments or the Family Tax Benefit.

For this reason we believe that the primary focus of tax reform should be to safeguard the integrity of the tax system, and to ensure that the tax-transfer system, taken as a whole, is progressive and that gender equality is one outcome of the reform process.

There are a number of policy reasons to encourage workforce participation by women. They include:

* Children in workless households are at greater risk of poverty;
* Underemployment affects the ability of women to save for their retirement; and
* Lower participation rates for women than men constitute a significant source of labour that could maintain productivity in the Australian economy.

EMTRs do not give a complete picture of the disincentive effects of the tax and transfer systems. It is difficult to fully capture these incentives, which may also be affected by factors such as childcare costs, public housing rent setting, and child support liabilities or receipts.

#### Participation tax rates

As stated in the 2009 report to the Treasurer on Australia’s Future Taxation System, in certain situations, EMTRs may not be an appropriate measure of the returns to work. For example, a person out of work may be less influenced by the effective tax rate on a small increase in earnings than by the effective tax rate when they move from not working to working — a much larger increase in private income. Effective tax rates on these larger increases in private income are often called participation tax rates (PTRs).

Research referred to in that 2009 report that looked at the labour market transitions of Australian families over time, found that PTRs have a moderate negative effect on the probability that women will enter employment, and a very large negative effect on the probability that an unemployed person, male or female, will find work (Dockery et al. 2007). This may be a particular concern for jobless couple families with children, who can face high PTRs when one member takes up work. Among couple families with children under 15 where the woman is not working, around 19 per cent of the men are also out of work (ABS 2009g). This is in sharp contrast to males in couples generally, who have markedly higher rates of employment.

#### Tax free threshold and multiple employers

In 2008 our member organisation Business Professional Women Australia (BPW Australia) suggested the tax-free threshold should be applied for all employees and consideration for taxation to remain at the same level for a second and subsequent job.

A large proportion of women are only able to access part time or casual positions and the higher tax rate on the second job is a disincentive to work. Many women, who can actually secure work, are put on casual rates and they may have three or four jobs of a few hours a week and pay a high tax rate for their second and subsequent jobs. This provides no incentive to work additional hours. These are not workers who can wait for the reimbursement of taxation at the end of the financial year, as they have a need of their wages immediately. A flat rate would encourage people to do bits and pieces of work without facing the penalty of a higher tax rate. The percentage of flat rate is not as important as the predictability of knowing how much they will earn in any given period of time.

Discussion question 10. To what extent are the interactions between the tax and transfer system straightforward for women who deal with both systems?

In 2010, consultations with women through the National Women’s Alliances was held on factors influencing women's decisions on work-force attachment, including tax and transfers

Then participants raised questions around the fluctuations of income and its impact on Family Tax Benefit (FTB) payments (FTB is paid under an estimate of annual income).

“There was general agreement that women found the tax and transfer system confusing, difficult, bureaucratic and not for the average person. However one participant did concede that those who were best able to use it were those who had experience of Centrelink and understood the processes.

Some participants suggested that the way the deductions worked sent a mixed message to women considering re-entering the workforce”[[2]](#footnote-2).

The women suggested there was the need for a process to ensure that any changes to income assessment could be made quickly rather than the longer process it often becomes. Women in rural areas and those with part-time jobs seemed to be particularly disadvantaged.

There is ample evidence of the difficulty many people have in calculating entitlements to FTB A and B, and adding in calculations about entitlement to assistance with the cost of child care.

There is scope for making these decisions much simpler, and suggest the examination of the consolidation of FTB into one payment as recommended by the Henry Report, and for the introduction of some form of working tax credits to assist lower income earners with their initial re-entry to the workforce.

Along with NFAW, we support reforms that facilitate greater economic independence of women and progressive reforms to address the high EMTR faced by second income earners are welcome. However our research shows that the provision of affordable and appropriate childcare is as important as EMTRs in decisions to return to the workforce. Again, changes to the funding of childcare are outside the tax system thus outside the scope of the discussion paper but the cost of subsidising childcare will be an additional revenue cost to the Government and the cost of childcare is a significant factor influencing women’s workforce participation.

### Tax planning and progressivity

#### Income Splitting

As noted in the current discussion paper, proposals for income splitting impact most heavily on secondary income earners, more likely to be women.

Income splitting is promoted from time to time as a means of supporting single income families however the economic evidence shows that it reduces workforce participation among secondary income earners and is of most benefit to higher income earners. This is not consistent with the current need and commitment to increase women’s workforce participation. It is also argued that income splitting is available to non-salary and wage earners through the use of business structures including family trusts and alienation of assets, and that this is a cause of complexity in the system.

With NFAW, we support moves to address the inconsistencies between the taxation of income in trusts and companies, which should include strengthening the integrity measures that ensure that the person who earns the income is taxed on that income.

Income splitting has been successfully resisted by Australian feminists since the Asprey Report in 1975 on both economic grounds and to protect women’s rights to earn income and own property. eS4W also continues to strongly resist any attempt to introduce income splitting into the tax system.

## 4 Savings

### Superannuation

Discussion Question 22. How appropriate are the tax arrangements for superannuation in terms of their fairness and complexity? How could they be improved?

The NFAW submission to the Tax Forum raised a number of issues in relation to the superannuation system and we continue to endorse this position.

eS4W agrees that the superannuation system is gender blind, based on the male breadwinner worker model; the design of the system does not recognise the interrupted pattern of women’s workforce participation, their tendency to early retirement, the gender pay gap and as a result, women are disproportionately reliant on the Age Pension in retirement.

eS4W supports the inclusion of superannuation guarantee payments as part of the paid parental leave system, as originally recommended by the Productivity Commission.

However, more significantly, the current superannuation system provides much greater tax benefits to those with the capacity to contribute more during their working life and high balances to support tax-free pensions in retirement. Chart 3.5 in the paper highlights the extent to which superannuation concessions are concentrated among individuals earning more than $250,000 pa. These concessions are skewed to men as 29 per cent of men are in the top two tax brackets compared to 14 per cent of women.

Further, when the repeal of the Low Income Superannuation Contribution takes effect, low-income earners will again be paying a higher rate of tax on their superannuation contributions than on earned income. This particularly disadvantages women, as they are overrepresented among low-income earners.

The Financial System Inquiry recommended that the taxation of superannuation should be reviewed, particularly in relation to the alignment of tax rates in the accumulation and pension phase of a fund. We also believe that the current level of contribution caps allow excessive accumulations of tax sheltered investments over a person’s working life.

?We agree that the following reforms should be considered:

1 Tax the Accumulation Phase: Superannuation funds should be taxed at the owner’s marginal rate of tax less a standard tax offset, which would be refundable to the superannuation fund. The Henry Review recommended the individual should be taxed, however we recommend that the fund be the taxing point.

2 Tax on Withdrawals: This could be done by applying the marginal rate of tax to withdrawals then giving a credit for the 15 per cent tax paid by the fund (note that this should be a refundable credit to assist people with total income below the tax threshold).

3 Reduce the Contribution Caps: this would discourage excessive contributions into superannuation. Currently a person who is under 55 can contribute $30,000 pa into superannuation. A person who could afford to contribute this amount each year over 30 years would accumulate over $2m. However any move to restrict contributions needs to be structured to take account of the interrupted work patterns of women: for example $10,000 pa could be structured as a rolling 5 year $50,000 cap. Excess contributions could be accepted where the payments were under an industrial award or workplace agreement but would be taxed at the individual’s marginal tax rates without any tax offset.

4 Retain the Low Income Superannuation Contribution. This is currently the only policy instrument giving benefits to low income earners, and it should be retained.

Remove the Exemption for employees earning less than $450 per month. This reform should be phased in to ensure that employers do not respond by reducing wages for these lowest income earners.

### Capital Gains Tax

Discussion Question 21: Do the CGT and negative gearing influence savings and investment decisions, and if so, how?

We endorse the position of our sister Alliance, Equality Rights Alliance, as put in their submission to this review.

Our members, who represent 20 national women’s organisations, are also very concerned about the lack of supply of affordable housing, for private ownership and for rent. As women approach retirement, the lack of affordable housing looms as one of their greatest concerns and we are already seeing increasing numbers of older women facing homelessness through no fault of their own, other than not being home owners.

The effectiveness of the capital gains tax to remove the preferential treatment applied to the realisation of assets has been severely compromised since 1999 by the application of the 50 per cent discount. The original justification was to simplify the former indexation regime, which in turn was applied to recognise inflation. This justification is not sustainable with annual inflation targets of 2 – 3 per cent pa.

The discount contributes to distortion in the investment market, and particularly diverts a significant proportion of investment funding into the supply of high-end rental and owner occupied housing with no mechanisms to encourage investment in affordable, well located rental housing. It also puts pressure on prices of existing housing stock. Women significantly invest in the family home, and increased housing costs limit their ability to access affordable and well located housing.

The Henry Review recommended a standard discount be applied across all investments, with deductibility of expenses restricted to the same proportion. Alternatively the discount could be based on a modified indexations basis, using the higher RBA target rate (3 per cent) to index the cost of assets when calculating the taxable gain.

## 6 Small business

Discussion Questions 42. What other options, such as a flow-through entity (like an S-Corporation), would decrease the overall complexity and costs for small business involved with choosing a business structure? How would such an entity provide a net benefit to small business

It is our understanding that the S-Corporation would particularly benefit women who want a simple solution for a home-based business. It would allow flexibility, which is important for women in business.

### Women in business

Characteristics of women in business differ substantially to those of men and these differences need to be considered in the tax treatment of small business.

The number of Australian women operating their own businesses has steadily increased over the past 20 years, but, in line with other OECD countries, they remain 'substantially under-represented as entrepreneurs'*.[[3]](#footnote-3)*

In June 2014 there were 668,670 women business operators in Australia.

* The numbers of women in business have grown slowly but fairly steadily over the last two decades, from 459,100 in June 1994.
* The proportionate increase in the numbers of women over that time was almost twice that of men: a 46% increase in the number of women business operators (from 459,100 to 668,670), compared with a 27% increase for men (from 1,018,400 to 1,294,400).
* In 2014, women made up just over a third of all Australian business operators (34%).
* This proportion has risen around three percentage points in the last twenty years, up from 31% in June 1994.

In June 2014, women who operated their own businesses made up 12.5% of the 5.3 million employed Australian women.

* Around 4.6% were owner managers of incorporated enterprises (OMIEs) (paying themselves a wage as employees), while 7.9% were owner managers of unincorporated enterprises (OMUEs), who are classified as employers if they have staff and own account workers (or sole operators) if they don't

#### Gender pay gap

In 2011-12, the average weekly cash income from an unincorporated business for women (in their main job) was $423, compared with $890 for men.

Women employers and sole operators were likely to have less money per week from all sources than their male counterparts and other employed women ($587 compared with $1,031 and $1,000 respectively).

On average they had lower disposable incomes as well: women who operated unincorporated businesses had an average weekly disposable income of $522 (89% of their total cash income from all sources), while for men it was $831 (80%). Women employees had an average disposable income of $843 (84% of their total cash income).

Around 15% reported government pensions and allowances as their main source of income

In May 2012, the average weekly cash income for incorporated business owners was $998 for women and $1,451 for men.

#### Gender wealth gap

While women employers and sole operators had lower weekly cash earnings and disposable incomes than other employed people, they had higher net wealth (although still lower than male employers and sole operators).

With the average Australian household net wealth in 2011-12 being $728,100, the mean wealth for households in which both a male and female unincorporated business operator lived was $1.46 million. Households where a woman was the only unincorporated business operator had an average net wealth around $897,100, compared with $983,100 for households where the only unincorporated business operator was male.

Households with no unincorporated business operators had an average net wealth of $690,000.

#### Superannuation

In 2007, women business operators were less likely than women who were employees to have superannuation coverage (76% compared with 93%). Less than half (45%) was currently making contributions into their superannuation accounts.

Retirement intentions made very little difference to their superannuation coverage: 71% of those who intended to retire had coverage, compared with 69% of those who didn't intend to retire.

In 2011-12, women employers and sole operators reported an average superannuation balance of $44,000, compared with $69,400 for their male counterparts, $52,900 for female employees (including OMIEs) and $89,000 for male employees (including OMIEs).

## 8 GST

The goods and services tax was not on the table in the previous round of tax reform.

eS4W endorses the position of its member organisation NFAW and opposes the extension of the GST without payment of appropriate compensation to low income earners. Just as women are less likely to be able to save for retirement, they are more likely to consume most of their available income on household and family expenditure.

Data in the discussion paper shows that GST exempt goods are consumed in approximately equal proportions across all income levels, and presents this as an argument to extend the base of the GST. However adding GST to the cost of basic food, education and childcare would have a gendered effect. Women spend a higher proportion of their income on household expenses, and to the extent that the expenditure is higher for families this will impact on women in particular. This was recognised in the compensation package that accompanied the introduction of the GST, which increased the Family Tax Benefit paid to the principal carer in the household.

In particular, at a time when affordability of childcare is a significant limitation on women’s workforce participation, charging GST on childcare would be a further barrier. It would also require an increase in the subsidies paid to parents of children using childcare services.

## 10 Complexity and administration

We support moves to reduce the complexity of the tax system. However we also note that a fair system will always need a range of integrity and targeting measures that will introduce complexity into the system. Reforms to reduce complexity must be carefully examined to ensure that they do not increase inequity in the tax system. For example the proposal to introduce standard deductions could increase the cost to the revenue unless there is also a cap to claims as taxpayers who were not entitled to claim deductions under the existing rules would make claims while taxpayers entitled to claim more than the standard deduction would still claim the higher amount.

We support the continued rollout of prefilling technology to empower taxpayers to complete their own tax returns; but we do not support the removal of lodgement requirements, as this would create anomalies in the transfer system that relies on reported income details for means testing purposes.

### Administration

We are concerned about the reductions in staffing levels in the Australian Taxation Office, particularly at a time when there is a focus on complex commercial activities such as international profit shifting. The ongoing downsizing will result in a de-skilling within the tax office as experienced staff move to other employment.

1. http://www.undp.org/content/dam/undp/library/gender/Gender%20and%20Poverty%20Reduction/Taxation%20English.pdf [↑](#footnote-ref-1)
2. http://www.security4women.org.au/wp-content/uploads/Womens-Voices-21-September-FINAL.pdf [↑](#footnote-ref-2)
3. OECD 2013, ‘[*Gender gaps in entrepreneurship are large and persistent*](http://www.oecd.org/std/business-stats/Entrepreneurship-at-a-Glance-2013-Gender.pdf)*’*, fact sheet in Entrepreneurship at a Glance 2013*,* OECD Publishing [↑](#footnote-ref-3)