Priorities for Tax Reform

1. **Improve the fairness of the tax base**
The principles of equity, efficiency and simplicity are usually cited as key goals of a well designed tax system. These principles can be conflicting and the process of developing tax policy is a competitive one, with different interests arguing for a tax system that best meets their interests. The Brotherhood of St Laurence believes that equity is an essential pillar over which any fair tax and transfer system should be constructed. The tax system has a key role in helping to build a society where equal opportunities are provided to all of its members. Tax and transfer policy is still one of the most effective tools we have to prevent social exclusion and the deprivation experienced by those who are most disadvantaged.

2. **Ensure that the tax and transfer system encourages workforce participation.**
Australia's system of transfer payments and social security law is inflexible and still largely based on a model of total unemployment or full time work. It is fundamentally unsuited to the increasingly deregulated, flexible and casualised labour market. While a short term or casual job is not ideal, it is better than no job and evidence suggests that participating in part time work can increase the likelihood of obtaining more permanent full time work (Fok et al 2009). Although there have been recent changes that allow people on the Disability Support Pension, sole parents and people on the aged pension to increase the amount they work without losing benefits, more needs to be done to ensure a better fit between the income support system and the aspirations of many income support recipients to work – there is no flexibility around allowing the long term unemployed to undertake part time work without losing significant benefits for example. These issues relate both to tax and transfers and Centrelink regulations. Sometimes, the decision to participate in paid work can be a risk; people are worse off if they take up employment and fail than if they never attempted it. For example if a person formerly on Newstart leaves a job voluntarily, benefits can be withheld for a period of eight weeks. There can also be waiting periods to requalify for benefits and asset test requirements so that any assets that may have been saved through work are lost (this is discussed further in the section on asset building). While the Henry Review recommended that liquid asset test be scrapped and that some groups of income support recipients permitted to work more there is much more that could be done to swing the balance in favour of workforce participation. For example, more flexibility around how participation requirements are calculated, particularly for sole parents who may want to change working hours to meet family needs. Allowing income support recipients to retain concession cards and to remain 'on the system' for 12 months after commencing paid work, despite not receiving payments can increase the incentives to work. Extending the system of earned income tax credits particularly for the long term unemployed could also increase incentives for individual job seekers to undertake more paid work.

3. **Ensure that the transfer system is fair and sustainable.**
Issues of workforce participation are exacerbated by an income security system that is highly inequitable and where there are a range of different payments and supplements that do not relate to each other in a sensible way. People on different payments can be in reasonably similar circumstances and while pension payments are sufficient to live a life of some dignity, this is not the case for Allowances such as Youth Allowance and Newstart. The single base rate of Newstart is $240 per week which is $130 a week less than the single base rate of the DSP. In addition, Newstart is indexed differently, which means that the gap between the two levels of payment is growing and the value of Allowances eroding. Evidence suggests that in 2050 a single unemployed person would be receiving a payment little more than 11% of the average male wage compared to about 20% now (Whiteford 2010). If Newstart Allowance in its current form is used as anything more than a very temporary form of income support it puts people at risk of dire poverty. Recent changes to the eligibility for the DSP will increase the numbers of people on Newstart, making the need to increase the benefit even more urgent. Both the OECD and the Henry Review have recognised that the Newstart Allowance is too low and should be increased. ACOSS have argued that the single rate of Newstart should be increased, a claim supported by the Brotherhood.

4. **Ensure that disadvantaged Australians have the opportunity to build assets through superannuation and other mechanisms.**
   Through tax concessions, mainly for housing and superannuation, the Australian Government provides billions of dollars to support building assets. However this support is not evenly distributed throughout the community and tax concessions on housing and superannuation mainly benefit those in the top fifth of income earners (Yates 2009, Treasury 2009). Program experience through the ANZ/ Brotherhood program, Saverplus as well as a wealth of other research has shown that disadvantaged people can save and build assets. Within the Saverplus program 82% of participants meet their savings goal and 70% continued to save at the same or a greater rate at the conclusion of the program (Russell et al 2009). Savings can be a very important buffer and can make the difference between being able to pay for car repairs to get to work or emergency dental treatment or a new washing machine. Proponents of asset building argue that "assets change the way people think and interact with the world. With assets, people begin to think in the long term and pursue long term goals. In other words, while income feeds people's stomachs, assets change their heads" (Sherraden 1991).
   However there are disincentives to save embedded in the social security system. For example, people applying for Newstart Allowance, Youth Allowance, Sickness Allowance and Austudy who have 'liquid' savings above ($2,500 for singles and $5,000) for couples have to complete a waiting period of up to 13 weeks before accessing benefits. Importantly, this test does not apply to other forms of saving and disadvantaged people are most likely to save in this 'liquid' form- that is in the bank rather than through a property or share portfolio. For people who move in and out of employment, this measure discourages savings and self sufficiency. The Henry review recommended removing the Liquid Assets Waiting Period- a move that the Brotherhood would support.
   Many of the Henry recommendations will improve the fairness and transparency of superannuation and should be supported, however there is more work to be done to ensure that low income people are able to build assets and superannuation. The Brotherhood has included a number of specific recommendations in relation to asset building and superannuation at Attachment A.

5. **Support measures that improve housing affordability.**
   Australia's tax treatment of housing is both generous and inequitable. Each year the tax system provides indirect assistance to owner occupiers worth about $45 billion annually. Most of this ($30 billion) is due to the exemption of owner occupied homes from capital gains tax. Property investors (non owner occupiers) benefit from $5.4 billion in tax concessions through measures like negative gearing and capital gains discounts. For households in the top 20% of incomes, the average annual benefit of exemption from capital gains tax is $8,000; almost seven times the benefit of $1,200 for households in the lowest 20% of incomes (Yates 2009). While tax concessions that support families to purchase a first home might be understandable, the use of the tax system to subsidise property investors with multiple properties and the owners of multi- million dollar residences is unjustifiable and unfair. By encouraging overinvestment the favourable tax treatment of housing is likely to be one of the factors that exacerbate issues of housing affordability. The Henry Review made a number of policy recommendations that, in the Brotherhood's view, would make modest improvements to the affordability of housing in Australia including removing stamp duty and broadening land taxes. The recommendation to reduce the discount rate on capital gains from investment properties from 50% to 40% would slightly improve equity and the Brotherhood also supports this recommendation. A full list of the recommendations supported by the Brotherhood is included at Attachment A. In addition, the Brotherhood recommends that the tax system should limit negative gearing and could also provide further incentives to invest in affordable housing such as exempting NRAS properties from land tax.

6. **Ensure that government investment in childcare payments works in favour of children and their families and supports workforce participation.**

   The provision of early childhood education and care is fractured and complex for Australian families and, due to childcare shortages, it can be unaffordable and unavailable. Subsidies are similarly complex, both in intent and administration. Yet, affordable high quality early education and care is important for young children and their families. For disadvantaged children and their families, it can be life changing.

   The Henry Review rightly notes that high quality, affordable childcare is important for women's workforce participation and for early childhood development. However, it largely restricts its recommendations to combining the childcare benefit and the childcare rebate to one payment. Arguably this part of the Review needs to be rethought to ensure that the way we, as taxpayers, pay for early childhood education and care is yielding the maximum returns for the broader community. While the Government has made a significant investment in early childhood education, there is more that could be done in terms of affordability and access.

   The weight of evidence demonstrates that participation in high quality early childhood education and care from the age of 3 is one of the most powerful and cost effective ways of combating long term disadvantage. A 25 year longitudinal study from the US involving 1,400 children found consistent and enduring benefits for children who began ECEC at the age of 3 compared with children who began kindergarten when older. By age 28 participants who were enrolled from age 3 had higher educational levels, higher incomes, higher socioeconomic status and lower rates of substance abuse than children who were enrolled in kinder at age 5 or 6 (Reynolds et al 2011). Evidence suggests that high quality early childhood programs will generate benefits of between $8 to $14 for every $1 invested. Researchers in the US estimate that a national two year program of quality early education commencing at age 3 could reduce poverty by between 5 and 15 percent (Duncan et al 2007).

   Recently, the Organization for Economic Cooperation and Development (OECD) examined educational attainment data from 65 countries. It found that literacy at age 15 was strongly related to participating in early education and childcare. Literacy levels were higher where childcare is available for longer periods and where there were measures to maintain quality. The OECD concluded that expanding the provision of universal access to 3 year olds can improve performance and equity by reducing socioeconomic disparities – providing that quality is maintained (OECD 2001; OECD 2009).

   The argument for investing in early childhood education and care for 3 and 4 your olds is strong purely in terms of outcome for the child. However, childcare also enables workforce participation, particularly among women. The OECD (2005) cites evidence of a positive relationship between higher workforce participation for women in countries with adequate child care subsidies. For example, Burniaux, Duval and Jaumotte (2003), estimated that if Australia's expenditure on child care were increased to the OECD average, the participation rate of women aged 25–54 would increase by 3.0 percentage points. The Henry Review also notes that according to the OECD, longer absences from the workforce participation can influence mothers longer term employment prospects.

   In the short term priority has to be given to ensuring that childcare is affordable for low income families- particularly those undertaking casual, part time or temporary work as these families may miss out on special subsidies. The Brotherhood supports the Henry recommendation that low income families should be eligible for a high rate of subsidy that covers up to 90 percent of the costs of care.

   However, the early childhood education and care policy framework should have a more ambitious agenda, particularly around combating disadvantage. The COAG commitment to 15 hours of free preschool for all 4 year olds starting in 2013 is a welcome development. The Brotherhood's view is that this should be extended to 3 year olds and should be provided in a way that also assists parents to participate in paid work. Our view is that 3 and 4 year olds should be able to access 15 hours of preschool with wraparound childcare for those parents who require it – either within a preschool, with childcare added or within a long day care setting with preschool education added. This would equate to around 3 days of pre-school/childcare. Clearly, this would require significant investment from Government and is a goal that would take some time to achieve.

However there are significant long and short term productivity gains. In the short term increased participation in the paid workforce by women with small children will aid productivity. Quality early childhood education and care can change the life course of all children but particularly disadvantaged children, in a way that benefits the whole community. The Brotherhood believes that this is one of the most important investments Governments could make in terms of reducing disadvantage.

2. How are your proposals financed over the short and longer term?

It is worth noting that Australia's overall level of tax revenue was 30.8% of GDP in 2007-8. It was ranked in the lowest third of the 30 OECD countries in terms of tax to GDP ratio. Indirect expenditures, or tax exemptions and concessions totalled more than $110 billion in 2008-9. More than 30% of this $110 billion related to concessions on owner occupied housing and almost 25% related to concessions for superannuation. Australia is not a highly taxed country by international standards and the implicit assumption that the current tax to GDP ratio is correct is a questionable one.

Those with assets benefit disproportionately from tax concessions and the ownership of assets is distributed far more unequally than income. The 5% of households with the highest levels of asset ownership own 30% of all assets while the lower half of all households own less than 10% of total assets (Taxwatch 2010). Addressing these inequities simply through implementing some of the recommendations made in the Henry Review, particularly around housing and superannuation, would be sufficient to fund all the spending priorities outlined in this paper.