Community and Public Sector Union
Stephen Jones • National Secretary

24 October 2008

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600
Email: AFTSubmissions@treasury.gov.au

Dear Sir/Madam,

CPSU Submission to the Review of Australia's Future Tax System

Please find attached a submission from the Community and Public Sector Union (PSU Group) to the Review of Australia's Future Tax System.

The contact person for this submission is Dr Kristin van Barneveld, Director of Policy and Research CPSU ph 02 8204 6930.

Yours sincerely,

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CPSU National Secretary

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CPSU (PSU Group) submission to the:

Review of Australia's Tax System

October 2008

Introduction: Balancing Work, Family and Community Life

The Community and Public Sector Union (CPSU) is an active and progressive union committed to promoting a modern, efficient and responsive public sector that delivers quality services and quality jobs. We represent around 60,000 members in the Australian Public Service (APS), ACT Public Service, NT Public Service, ABC and the CSIRO. We also have members in Telstra, commercial television and the telecommunications industry.

The CPSU welcomes the Government's *Review of Australia's Tax System*. It is of fundamental importance that Australia has a tax system that enables the provision of quality public services to meet the challenges of the 21st century.

During 2008, CPSU members identified the key issues they wanted their union to pursue over the medium term. The resulting document, *Agenda for Change,* sets out priorities for the CPSU on the economic, social, industrial and environmental challenges Australia faces over the next five years. Members identified as key goal ensuring that *'Commonwealth and Territory Governments recognise the importance of the public provision of services and properly fund these to deliver quality public services and quality public policy, foster innovation, achieve best practice and deliver quality jobs.'*

The CPSU commends the Review's Terms of Reference for acknowledging that the *'tax system serves an important role in funding the quality public services that benefit individual members of the community as well as the economy more broadly.'* CPSU also welcomes the Review's intention that its recommendations *'should not presume a smaller general government sector'.*

While recognising that government must be properly funded and this requires a certain level of taxation, there are three areas where the outcome for some CPSU members is different than for others in the community because of intricacies in the current taxation arrangements. In that regard, this submission contains specific recommendations regarding salary sacrifice, particularly of superannuation and childcare costs. The third area of concern is the taxation treatment of superannuation for those in some defined benefit schemes. These issues are discussed in detail below.

Summary of Recommendations

1. The importance of providing adequate funding to the public sector must be acknowledged by the Review and included in any resulting changes to the taxation system.
2. The CSS and PSSdb legislation should be amended to allow for employees to salary sacrifice into those funds.
3. The government should separately assess, for taxation purposes, superannuation income streams and additional assessable income.
4. The government should ease present restrictions on salary sacrificing childcare costs in the interests of work/life balance.

Quality Public Service

To secure the future of Australia, the Government has an ambitious agenda on global warming, national health reform, an education revolution, innovation, a fair and balanced industrial relations system, closing the gap in Indigenous disadvantage, building new infrastructure, and reshaping Australia's role in the region and internationally.

The Australian Public Service has the central role in delivering the high quality services, policy and innovation required to meet this agenda. CPSU members have key roles whether these are in government service delivery, policy development, or public sector organisations such as the ABC, SBS and the CSIRO.

To meet the challenges of the future, public servants must to work in an environment that encourages skill development, recognises the importance of education, motivation, creativity and fosters a commitment to achieving outcomes over the long term. This requires the APS to be adequately funded.

As the major source of government revenue, taxation is also the source of public sector funding. Any changes to the taxation system will impact not only on the agencies and employees directly involved in developing and implementing taxation reform but on the entire public sector.

The CPSU supports the simplification and modernisation of the taxation system and the focus on removing inequities within the system, however this should not result in a reduction in the resources provided to the public sector.

Ensuring the Australian taxation system is prepared for the future is a complex task that must balance how the system can made fairer for average Australians while also providing the resources and capacity to grow and support a government and a public sector that delivers long-term high quality outcomes, services and policies.

Recommendation: That the importance of providing adequate funding to the public sector is acknowledged by the Review and included in any resulting recommendations and taxation changes.

Salary Sacrifice of Superannuation Contributions

Most superannuation schemes (generally accumulation schemes) permit salary sacrifice. Indeed, it is an option often used by employee contributors to such schemes. In contrast, public servants who contribute to the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) defined benefit (db) super schemes cannot salary sacrifice their own contributions.

Every worker should be allowed to salary sacrifice regardless of superfund membership. Many CPSU members who contribute to the CSS and PSSdb superfunds have opened a second superannuation account specifically to salary sacrifice into – usually the Australian Government Employees Superannuation Trust (AGEST). AGEST actively promotes this advantage in order to attract members who are already in public sector defined benefit schemes.[1]

In the competitive environment of 'superchoice', superfunds should be able to offer a consistent range of benefits to members and potential members. CPSU members in CSS and PSSdb want to salary sacrifice into their own funds and regard the current restrictions on salary sacrifice as unfair. Such restrictions work against the government and industry advice to employees that an individual's superannuation should be consolidated in a single superfund and not split.

Recommendation: That the CSS and PSSdb legislation be amended to allow for employees to salary sacrifice into those funds.

Salary Sacrificing Childcare Costs

In addition to salary sacrificing into superannuation funds, CPSU members also indicated that they wanted flexibility to salary sacrifice for items such as mortgages and childcare but are unable to do so. One CPSU member commented that:

> *There should be a broader range of items that public servants can salary sacrifice to because at different lifestyle stages, people will have different expenditure needs and for equity as employees in the private sector have more options.'*

CPSU members place high importance on salary sacrifice arrangements. The CPSU's Core Bargaining Claim for collective agreements includes measures *'for employer support for childcare for employees, such as salary sacrifice for childcare and school care programs'.*

However achieving this aim for all our members is made difficult by the current 'business premises' limitation on applying the fringe benefits tax (FBT) exemption to childcare. Section 47(2) of the *Fringe Benefits Tax Assessment Act 1986*, provides an exemption from fringe benefits tax where the 'childcare facility' is located on the business premises of the employer. However, at present around only around a third of APS agencies are able to offer salary sacrifice for childcare and even within those agencies, an employee's access will depend on whether their particular office is located at or near the employer

[1] See http://www.agest.com.au/about-us/index.cfm [accessed 13/10/2008].

provided childcare. As one CPSU member has noted, in the APS, agency salary sacrifice for childcare is *'really only available to Canberra based staff'*[2].

This issue has been recognised by government. In 2006 the House of Representatives Standing Committee on Family and Human Services Report: *Balancing Work and Family*, recommended that:

> *Fringe benefits tax be removed from all childcare, so that all or any childcare provision made by employers to assist employees is exempt, inclusive of salary sacrificing arrangements for childcare*[3].

In July 2007, then Opposition Leader Kevin Rudd referred to this anomalous situation. In a speech to the Sydney Institute Mr Rudd said that:

> *The question arises as to whether the tax system, particularly, FBT, can play a greater role in encouraging work-based childcare or work-sponsored childcare placed in nearby centres where employers may not be large enough to build or operate purpose-built centres. My challenge to Mr Costello is to throw open the books and to make his Treasury officials available to cost and analyse options such as these*[4].

The CPSU shares the Prime Minister's view that the tax system should do more to ensure that salary sacrifice of childcare costs is equally available to all employees. Changes to the FBT exemption for childcare would be a simple and effective may for the government to support better work/life balance for working families.

Recommendation: That government ease present restrictions on salary sacrificing childcare costs in the interests of equity and work/life balance.

Tax Treatment of Superannuation

Another example of inequity resulting from the current tax system is the higher marginal tax rate on non-pension income imposed upon members of 'untaxed' superannuation funds. CPSU members in the CSS and PSSdb superfunds are particularly disadvantaged by this situation.

The 'Better Super' changes introduced in the *Taxation Laws Amendment (Simplified Superannuation) Bill 2006* made a number of amendments to the tax treatment of superannuation. Those in a taxed super funds aged over 60 receive their superannuation pension tax free. The superannuation pension therefore does not form part of assessable income for any additional (non-super) earnings for this group.

[2] Sources: House of Representatives Standing Committee on Family and Human Services Report, *Balancing Work and Family* (December 2006), pp.237-8; APSC *APS Statistical Bulletin 2006-7*.
[3] *Balancing Work and Family*, p.xxv.
[4] Kevin Rudd MP, *Fresh Ideas for the Future Economy*, Address to the Sydney Institute (18 July 2007).

In contrast, the super pension of employees of 'untaxed' funds (including the CSS and PSSdb schemes) *does* form part of their assessable income. The 2006 *Bill* established a 10 per cent taxation rebate for this group. The effect is significant. Imagine a retiree aged 65 who earns $50,000 per annum from their super pension and an additional $50,000 from a part time job and share earnings. Their taxable income is therefore $100,000 and tax is paid on the total earnings less the 10 per cent rebate.

The effect of this is that members of 'untaxed funds' pay a higher marginal rate of tax on non-pension income than members of 'taxed funds' once the effect of the pension is factored into the calculation.

This has an impact on a significant number of CPSU members. The CSS and PSSdb funds have over 160,000 current Australian Government employees as contributory members and/or receiving employer superannuation contributions into one of these funds. There are another 110,000 employees who have left the Australian Government sector who retain a superannuation entitlement in these schemes as preserved or deferred benefit members. A further 130,000 pensioners also are paid benefits from these two schemes.

In its February 2007 report, the Senate Standing Committee on Economics unanimously recommended that:

> *The Government should consider separately accessing, for taxation purposes, superannuation income streams and additional assessable income*[5].

The CPSU agrees that the practical solution is to separately assess superannuation income streams and additional assessable income (e.g. age pension, shares, casual work) for tax purposes and seeks that the Government gives effect to the recommendations of the Senate Standing Committee on Economics.

Recommendation: That the government separately assess, for taxation purposes, superannuation income streams and additional assessable income.

Summary

The CPSU welcomes the *Review of Australia's Tax System*, and the opportunity make recommendations on Australia's future tax structure.

The CPSU is committed to campaigning for a fully funded public service that provides the quality services and policy development required to secure Australia's future. The CPSU looks forward to the *Review* providing innovative and practical solutions to achieve this aim.

[5] The Senate Standing Committee on Economics. Tax Law Amendment (Simplified Superannuation) Bill 2006 [Provisions] and related bills [provisions], p.32.

CPSU is also committed to achieving taxation measures that redress current inequities and improve the work/life balance of Australian employees.

The following recommendations are made to the *Review*:

1. That the importance of providing adequate funding to the public sector is acknowledged by the Review and included in any resulting recommendations and taxation changes.
2. The CSS and PSSdb legislation be amended to allow employees to salary sacrifice into those funds.
3. The government must ease present restrictions on salary sacrificing for childcare costs in the interests of equity and work/life balance.
4. The government must consider separately assessing, for taxation purposes, superannuation income streams and additional assessable income.