Mission Australia

Position Statement: Tax Forum October 2011

Priority reform directions for the tax and transfer system

- Mission Australia agrees that a fairer tax and transfer system should be a priority. For our clients, and those like them, their ability to access essentials such as education, healthcare, housing, transport and social security is dependent on government investment in these areas.

- It is critical that the government is able to generate sufficient revenue and that this revenue is raised progressively, so that those who have most capacity to contribute to the costs, do so, and those with least capacity such as our clients are not disadvantaged in their access to services.

Our specific reform areas:

Workforce and other participation

- Complexities in the income support system and its interaction with the tax system mean that there are structural barriers and disincentives for some groups to participate in the workforce and to some extent education and training. We would like to see high effective marginal tax rates (EMTRs) reduced or eliminated.

- Even higher EMTRs and disincentives are faced by social housing tenants who pay income based rents and who have a significant disincentive to participate if it means losing an additional 25 to 30 percent of their income as well as the potential of losing their housing if they stay in work.

- Significant reform is required to create a balanced approach to both helping people into the workforce who are long-term unemployed, as well as ensuring those who experience unemployment do not become long-term unemployed.

Potential changes

- The different payment rates and different indexing arrangements for the job seeker allowances and disability payments create perverse incentives for those who are unemployed to move onto a disability allowance. We believe that payment structures should be brought into line progressively over time and consistently indexed.

- Consideration should be given to whether social housing rents could be structured differently, perhaps along the lines of the UK model which attaches a subsidy to the property rather than the tenant. However, this could also result in a range of unequal outcomes for tenants and applicants and may carry other perverse incentives such as encouraging people to move to low employment areas simply because the cost of rent is lower.

Housing

- The current tax settings around housing support personal investment in both home ownership and the delivery of private rental properties.

- The private rental market supplies approximately 25 percent of all housing, however the current tax settings are contributing to significant market failure and a long term, chronic lack of supply.

- There has been long term under-investment in social housing, with the result that many who should be living in social housing are living precariously in informal private rental arrangements including caravan parks as well as in the formal private rental market, yet this is often unaffordable for those on social security payments and low wages.

- The major current drivers of this under-investment are tax related:
    - Negative gearing is most attractive to those with higher marginal tax rates. However fewer potential investors now pay the top two marginal tax rates and therefore negative gearing is becoming less attractive;
    - A slowing or stagnation in capital growth in housing, while generally a good thing, means that negatively geared property investment becomes unattractive; and
    - Inelastic demand for rental accommodation means that income from rent is not likely to compensate for lower capital growth.

- Long-term underinvestment has resulted in:
    - A skewing of the market to higher value, new properties that do not meet the housing needs of our client group either affordably or with appropriate amenity; and
    - A lack of development of institutional investment in housing.

Potential changes

- Further development of the National Rental Affordability Scheme to promote viable institutional investment in the delivery of rental housing.

This will go a long way to ensuring that a viable rental sector is delivered that is not reliant on indirect incentives related to personal income.