Budget Priorities Statement

Federal Budget 2018-19

January 2018

Who we are

ACOSS is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

What we do

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

First published in 2018 by the
Australian Council of Social Service

Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Email: info@acoss.org.au
Website: www.acoss.org.au

ISSN: 1326 7124
ISBN: 978 0 85871 003 0

1 Executive Summary

We can reduce poverty, inequality and the budget deficit at the same time as improving essential services, creating opportunity and improving the lives of children and adults. We encourage the government to address these priorities in the May 2018-19 budget.

In this budget we face a choice. The last budget marked a significant and welcome shift in budget policy from cutting spending on essential benefits and services to strengthening revenue. In 2018, we urge the government to continue down that path and take further action to bolster public revenue while investing in essential services and support. Regrettably, the government is still proposing cuts to the **company tax rate** that are projected to cost $14 billion in 2026, and has also foreshadowed cuts to personal income tax rates. Tax rate cuts cannot be justified while cuts to essential benefits and services affecting people on the lowest incomes are also proposed and the budget is not yet in a robust position.

This budget should close major gaps in **essential benefits and services**, especially in areas of expenditure growth such as health, aged care and the National Disability Insurance Scheme (NDIS), while building up a fiscal buffer so that future governments can meet the community's needs and expectations.

The government must be alert to **critical problems contributing to poverty and inequality**, including unaffordable housing, low income support payments including unemployment and family payments well below the poverty line, and chronic under-investment in mental health and dental health. These areas have been neglected for decades and the impact is most keenly felt by people on the lowest incomes. We welcome last year's solid growth in employment but labour market conditions remain weak. There are approximately eight people looking for paid work or more hours for every job available.[1] Too many people employed part time are finding it difficult to secure the working hours they need to earn a decent living.

Of particular concern is **long-term unemployment**, with over 70% of people receiving Newstart and Youth Allowances (600,000 individuals) relying on income support for more than one year.[2] An unemployment rate well below 5% is likely to be needed to resolve these lingering problems and reach 'full employment'. This is achievable given low inflation.

Those affected by unemployment rely on the lowest unemployment benefit in the OECD[3].

As a first step to easing the most severe poverty experienced by people on the lowest allowances, we propose a $75 per week increase in **income support payments** for single people who are

---

[1] Ratio includes both unemployed and underemployed and is derived by ACOSS from Australian Bureau of Statistics, January 2018 Labour Force data.

[2] Income support population statistics from www.data.gov.au

[3] Whiteford, Peter: Adequacy of social security benefits for working age households: a comparative assessment

unemployed or studying fulltime, reflecting new evidence on basic living costs.[4] At $274 per week for a single adult, the Newstart Allowance is too low for people to afford the basic essentials of life, making it much harder for them to job search effectively. Rent Assistance for a single adult at $65 a week is a fraction of the cost of typical rents in major urban centres, where most jobs are located.

We also propose the establishment of a Social Security Commission to provide independent expert advice to government on the living costs and needs of people receiving social security payments, including family payments, and to report regularly to Parliament on the adequacy of payments, their indexation, and income test arrangements.

In 2014, 731,300 (or one in six) children were estimated to be living below the poverty line.[5] To reduce our shamefully high level of child poverty, urgent action must be taken to improve **family payments**, including lifting unemployment payments for adults and single parents, while improving Family Tax Benefits for families on low incomes, especially single parent families. Family payments should be restructured so they no longer decline as children grow older and their costs rise. Payments for school age children should increase, and a supplement should be introduced to assist single parents with the extra costs of raising children alone.

More investment in well-designed **employment assistance**, including wage subsidies and training for people who are unemployed long term or at risk, would ultimately pay for itself. Current employment service funding contracts and incentives discourage patient investment in people who are most disadvantaged in the labour market. This is false economy.

We propose a package of reforms to improve the effectiveness of ***Jobactive*** for people looking for work in the labour market, a **Career Transition Scheme** for people who have been out of the workforce for a significant period, and replacement of the punitive **Community Development Program** with a community-driven Remote Development and Employment Scheme.

The best way to **raise revenue** while improving economic efficiency and equity is to remove tax shelters, loopholes and other unjustified inconsistencies in the tax base.

We propose reducing capital gains tax concessions, limiting negative gearing deductions, curbing the use of private trusts and private companies to avoid paying personal income tax, and taking further steps to curb international business tax avoidance and remove business tax breaks that are not fit for purpose.

While we warmly welcomed the government's caps on tax breaks for the wealthiest **superannuation** account holders, the system remains fundamentally biased towards people on high incomes and is far too complex. We propose a system overhaul, replacing the current flat-rate tax on contributions

---

[4] Saunders, P., Bedford, M. (2017): Budget Standards: A new healthy living minimum income standard for low-paid and unemployed Australians

[5] ACOSS / SPRC (2016): Poverty in Australia Report 2016

with simpler and fairer two-tiered rebate, while taxing superannuation fund earnings after retirement to help pay for health and aged care.

High **housing costs** are a major source of financial stress, especially for private tenants on the lowest 20% of incomes, with four out of five paying more than 30% of their income in rent. Housing costs are also the main cause of Australia's dangerously high household debt levels, with average house prices 4-5 times average annual household earnings.[6]

Australia has a severe shortfall of **social and affordable housing**, including a shortage of over 500,000 rental dwellings that are affordable and available to the lowest income households.[7] A legacy of underinvestment remains, as does the absence of an overarching national strategy. The government should prioritise developing a national affordable housing strategy in dialogue with other governments and stakeholders which boosts funding for capital growth under the new affordable housing agreement, reforms housing taxation (capital gains and negative gearing, as noted above), incentivises private sector investment in affordable rental housing, and improves financial support to low-income renters.

The government must also develop a new **remote housing funding agreement for Aboriginal and Torres Strait Islander people** with costs shared equally between State/Territory parties. This should be complemented by a national urban, rural, regional and remote Aboriginal and Torres Strait Islander strategy with funds in the new national housing agreement earmarked to support the growth of Indigenous Community Housing Organisations.

Our key investment priorities in **health** are to improve the quality and accessibility of health services, including oral and preventive health services, for people on low incomes.

Affordable, quality universal health, aged care and disability services are a hallmark of a decent society. If we are to avoid a two tier health system like that in the United States, which puts pressure on public budgets but still leaves people on low and modest incomes to pay large up-front fees, the health financing system must be reformed and a robust public revenue base secured to meet growing expenses in the coming decades. A first step would be to abolish the **Private Health Insurance Rebate** and the **Extended Medicare Safety Net**, which inflate health care costs and mainly benefit higher income earners using relatively expensive services.

We welcome the government's intention to raise revenues from the **Medicare Levy** with the proceeds earmarked for the **National Disability Insurance Scheme**. The Levy should be strengthened further, and its fairness improved, by removing loopholes which allow individuals to use tax shelters such as trusts and negative gearing and salary sacrifice to avoid paying. At the same time, consideration should be given to raising exemption thresholds for people with low incomes.

---

[6] Ryan Fox and Richard Finlay (2012): Dwelling prices and household income, Reserve Bank of Australia Bulletin, December Quarter 2012

[7] National Housing Supply Council (2013): Housing supply and affordability issues 2012-13

Significant revenue could also be generated, and improved population health outcomes achieved, by introducing **sugar taxes** on sweetened drinks and reforming **alcohol excise**. Contrary to concerns this would adversely affect people with low incomes, it would improve health especially among children. Revenue from these sources should be earmarked for investment in health promotion and illness prevention and a remote fresh food subsidy.

Altogether, these and other savings measures earmarked for health, aged care and disability services would raise an additional $4.4B in 2018-19 and $9.9B in 2019-20. This is significant in a year when the National Health Care Agreements between the Commonwealth and State and Territory governments are due for renegotiation.

The funding climate for **community services** since the 2014-15 budget has been one of chronic and prolonged uncertainty. The combination of cuts, followed by partial reversals or freezes or the 'repackaging' of funding allocations has wrought havoc in critical areas of social infrastructure. Indexation has not been adequate to account for rises in wage costs.

In 2018, the government should undertake a national community services needs mapping exercise to inform future funding. To ensure longer term sustainability, community sector funding should be linked to wage movements. A social innovation framework should be developed to support innovation in the community services sector.

Deductible Gift Recipient eligibility should be extended from 1 July 2019 to all charities whose purpose is altruistic and for the public benefit, and to benefit (directly or indirectly) people whose disadvantage prevents them from meeting their needs. This would remove artificial restrictions on their capacity to meet their charitable purposes through public advocacy. Proposed new **curbs on public advocacy** by charities and other community organisations should be abandoned in the interests of open, informed debate on public policies affecting people facing disadvantage and threats to the natural environment.

Finally, new policy settings for **early childhood education and care** which are due to begin on 1 July should be recalibrated to improve access for families on low incomes.

1.1 Summary of recommendations

We propose modest additional expenditures of $3.2B ($6.7B in 2019-20), and an increase in revenues of $3.4B ($13B in 2019-20), reducing the budget deficit by $0.3B ($6.5B in 2019-20). Based on the budget estimates in the 2017 MYEFO statement, this would result in a surplus of $3.9B in 2019-20. More importantly, in future years the impact of the savings measures would grow, helping offset necessary increases in the cost of essential services including health, aged care and the NDIS. Key expenditure and revenue proposals are summarised in the following table:

Table 1: ACOSS Budget recommendations

	2018-19		2019-20	
	Cost ($m)	Saving ($m)	Cost ($m)	Saving ($m)
EXPENDITURE MEASURES				
Increase allowance payments for single people by $75 per week	-1600		-3270	
Index allowance payments to movements in earnings	-220		-240	
Reform family payments to better target assistance and reduce child poverty	-610		-630	
Establish a Social Security Commission	-7		-8	
Replace the working credit scheme with a $4,000 income bank	-310		-320	
Improve the effectiveness of jobactive	-250		-250	
Introduce a Career Transitions Scheme	-50		-70	
Replace the Community Development Program	0		0	
Additional capital funding to state and territory governments to enable growth in supply of social housing to people on low incomes	-750		-1000	
Increase Rent Assistance payments	-775		-800	
Develop a new Aboriginal and Torres Strait Islander housing strategy with supplementary funds to support culturally appropriate housing	-150		-155	
Develop a new Aboriginal and Torres Strait Islander remote funding agreement	-450		-450	
Resource an independent body to monitor and evaluate the impacts of housing and homelessness over time	-30		-31	
Earmark all homelessness services funding in the new national housing and homelessness agreement	0		0	

	2018-19		2019-20	
	Cost ($m)	Saving ($m)	Cost ($m)	Saving ($m)
Increase investment in preventive health services	-150		-154	
Increase investment in affordable, accessible dental care for children and adults	-1200		-1230	
Restore community service funding levels, including through the Indigenous Advancement Strategy	0		-1513	
Index community services funding to wage movements	-332		-341	
Direct representation of community services in mapping service needs and competition policy reform	0		0	
Develop a social innovation framework and funding model	-3		0	
Redirect savings from tightening of income test and caps for higher income households to improve child care access for children in low income families	0		0	
Core funding for institutional capacity of Aboriginal and Torres Strait Islander representation	-4		-4	
End the compulsory income management and the cashless welfare card trials		56		58
Abolish the Private Health Insurance Rebate*		3300		3350
Abolish the Extended Medicare Safety Net*		430		440
TOTAL	**-6891**	**3786**	**-10466**	**3848**
Impact of expenditure measures	**-3195**		**-6618**	
REVENUE MEASURES				
Reduce Capital Gains Tax concessions		0		600

	2018-19		2019-20	
	Cost ($m)	**Saving ($m)**	**Cost ($m)**	**Saving ($m)**
Abolish inequitable small business Capital Gains Tax concessions		0		300
Restrict deductions for personal investment expenses and redirect part of revenue to new rental housing incentive		150		300
Curb the use of private trusts to avoid personal income tax and conceal income		0		1500
Prevent the use of private companies to avoid personal income tax		0		1400
Curb international business tax avoidance		0		500
Abolish fuel tax credits for off-road use		2000		2000
Remove immediate deductions for mining exploration		500		300
Fair and simple tax concessions for superannuation contributions		0		0
Abolish counter-productive housing-related superannuation concessions		40		50
Tax superannuation fund earnings after retirement to help finance health and aged care*		0		1500
Remove age-based tax concessions to help finance health and aged care*		700		700
Strengthen the Medicare Levy*		0		1200
Introduce a 'sugar tax' on sweetened drinks*		0		500
Reform alcohol excise so that tax is levied consistently on alcohol content*		0		2300
Retain and extend gift deductibility for charities not engaged in direct service provision	0		-50	
TOTALS	**0**	**3390**	**-50**	**13150**

	2018-19		2019-20	
	Cost ($m)	Saving ($m)	Cost ($m)	Saving ($m)
Impact of revenue measures	**3390**		**13100**	
OVERALL BUDGET IMPACT				
Costs	**-6891**		**-10516**	
Savings	**7176**		**16998**	
Total (savings)	**285**		**6482**	

* These savings measures (worth $4.4B in 2018-19 and $9.9B in 2019-20) are earmarked (but not strictly hypothecated) for expenditures on essential health, disability and aged care services

NOTE: A + sign indicates the measure will improve the budget bottom line; a – sign indicates it will increase the deficit

A note on costings

ACOSS is committed to presenting considered, evidence-based and responsible proposals to government for budget reforms. Crucial to this process is our capacity to model impacts on revenue and expenditures. ACOSS no longer has access to an up-to-date affordable modelling tool such as the National Centre for Social and Economic Modelling's 'Stinmod' to run costings for our policy proposals. We welcome Treasury's decision to make its new budget microsimulation model available for public use, but until a user-friendly interface is available, organisations such as ACOSS are at a disadvantage in reliably costing their policy proposals.

2 Budget strategy

Key messages

+ Public revenues must increase to restore budgets and meet the cost of services for an ageing population, especially in areas of expenditure growth such as the NDIS, health, needs-based schools funding, and action to reduce poverty.
+ There is scope to do this. Australia is the eighth-lowest taxing among 39 OECD countries.
+ Unfunded cuts to the company tax rate and personal income tax cuts at this time would be a major mistake, repeating errors of the last decade. Tax cuts today would lead to future cuts to essential services.
+ Eight successive income tax cuts from 2003-2011 were a major cause of the government's current budgetary problems. For the majority of taxpayers, 'bracket creep' won't increase the taxes they pay above 2002 levels (prior to the tax cuts) until 2019.
+ The main pressures on the budget do not come from a social security 'blowout'. There has been a long term decline in reliance on working-age payments, including unemployment payments which are less than 3% of budget spending.
+ Spending cuts, and a failure to grow services in line with demand, have hurt households. The largest increases in the cost of living over the last decade were for publicly-funded services such as health care, child care, and education.
+ **We have a choice**: If we take a tax cut now, then we face another horror budget down the track. Instead, we should defer any tax cuts (personal or corporate) until the Budget is in better shape and essential services are properly resourced.

The budget should begin to close major gaps in essential benefits and services while building up a fiscal buffer so that future governments can meet the community's needs and expectations. In particular, funding is needed for areas of expenditure growth such as health, aged care and the National Disability Insurance Scheme (NDIS). This requires a stronger revenue base and careful redesign and targeting of expenditure programs, including the removal of programs that are wasteful or no longer fit for purpose. In this way, the deficit can be reduced more quickly than proposed in last year's budget, without major increases in tax rates or cuts to social security payments and services that impact on people who are already struggling. We cannot afford unfunded cuts to personal or company income taxes, and these should not be pursued.

The proposals in this submission would increase budget expenditures $3.2B ($6.7B in 2019-20), and an increase in revenues of $3.4B ($13B in 2019-20), reducing the budget deficit by $0.3B ($6.5B in 2019-20). Based on the budget estimates in the 2017 MYEFO statement, this would result in a surplus of $3.9B in 2019-20. Since the MYEFO estimates appear to be optimistic, this would improve confidence that a surplus will be secured within the next three years.

There is scope for this modest increase in government revenue. Australia is the eighth-lowest taxing country among 39 OECD nations, ahead of only Mexico, Chile, the Czech Republic, Ireland, the United States, Switzerland and Korea.[8]

Tax cuts have undermined the budget

The last budget marked a significant and welcome shift in budget policy, from reducing spending to raising revenue to achieve budget balance, with investment in health, housing and education.

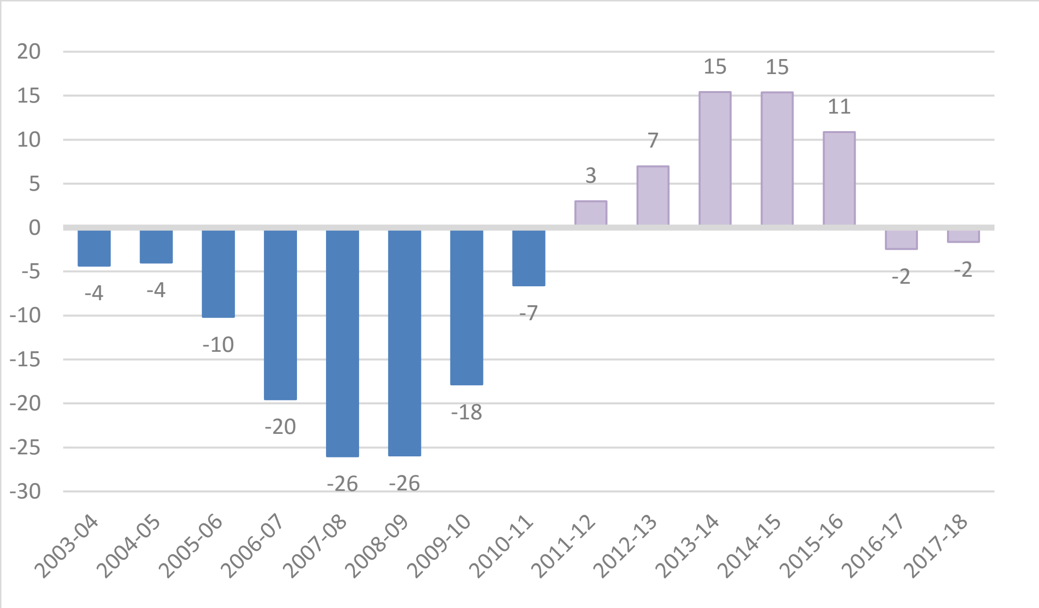
However, the government is still proposing cuts to the company tax rate that are projected to cost $14 billion in 2026, and has foreshadowed cuts to personal income tax rates as well.[9] This is at odds with its advocacy of budget consolidation, and cannot be justified as long as cuts are proposed to benefits and services affecting people on the lowest incomes.

Commonwealth tax revenue has been depleted by sluggish economic growth since the end of the mining boom. It was already undermined by the eight successive income tax cuts that were given away from 2003 to 2011 when the boom was in full swing. These personal tax cuts are the major cause of the present budgetary problems.

[8] OECD (2015): Revenue Statistics

[9] Kouparitsas, M et al (2016): Analysis of the long term effects of a company tax cut Treasury Working Paper 2016-02.

Figure 1: Impact of tax changes on the Federal Budget ($B)

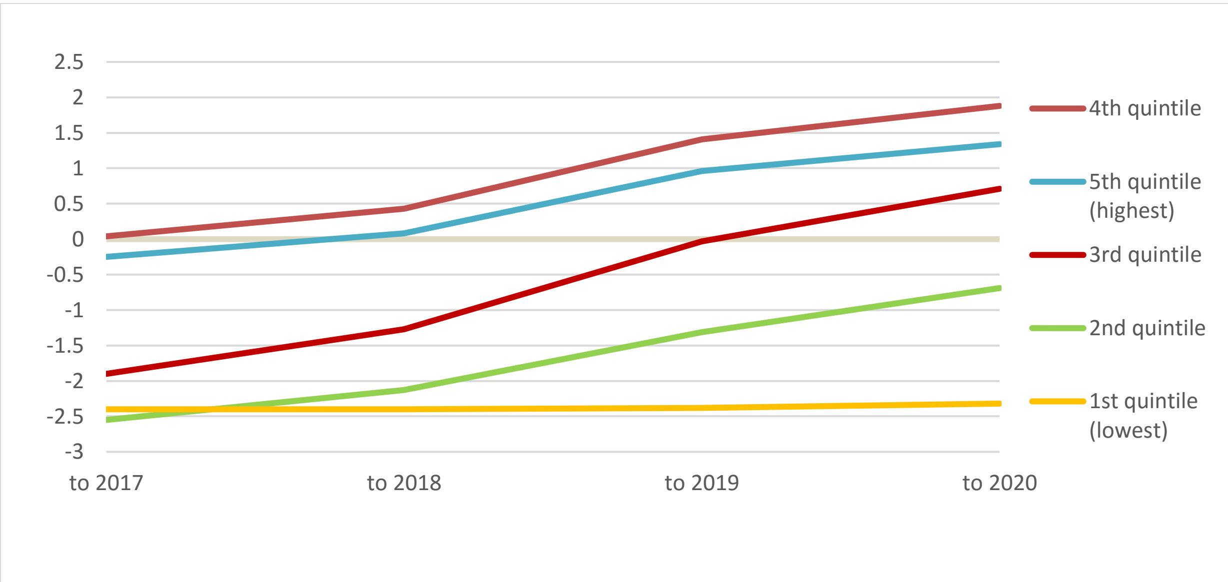


Source: Parliamentary Budget Office (2016), 'Impact of policy divisions and parameter variations on Australian Government revenue and spending estimates', as at 2015-16 Mid-Year Economic and Fiscal Outlook

The impact of tax 'bracket creep' has been exaggerated

The impact of those tax cuts on average tax rates is also still being felt. Despite concerns about 'bracket creep', the majority of taxpayers won't be paying more income tax (than they would have under the 2002 tax scale) until 2019.

Figure 2: Change in average tax rates since 2003 (%)

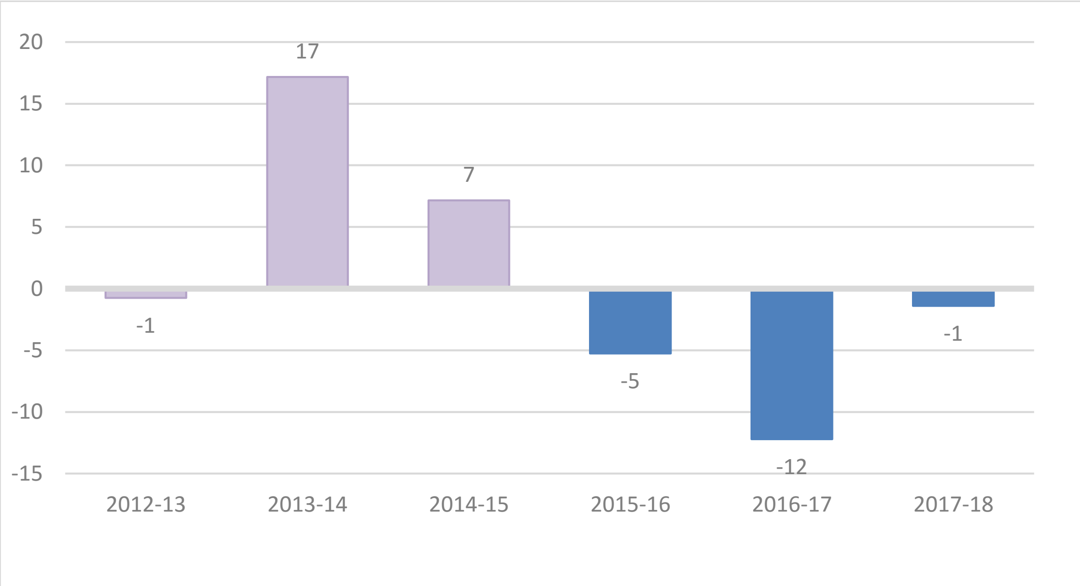


SOURCE: Parliamentary Budget Office (2017) Changes in average personal income tax rates: distributional impacts Report 3/07.

Tax cuts lead to spending cuts

The resulting budget pressures were used by governments to justify spending cuts, especially in the 2014 'horror budget'. That budget froze Medicare payments; cut hospital funding to the states, dental subsidies and pharmaceutical benefits; froze family payments; cut unemployment benefits; cut aged care support; reduced funding for universities and school funding under the 'Gonski' scheme; and made other cuts affecting people relying on social security payments or essential services.[10]

Figure 3: Impact of spending decisions on the Federal Budget ($B)



Source: Parliamentary Budget Office (2016), 'Impact of policy divisions and parameter variations on Australian Government revenue and spending estimates', as at 2015-16 Mid-Year Economic and Fiscal Outlook

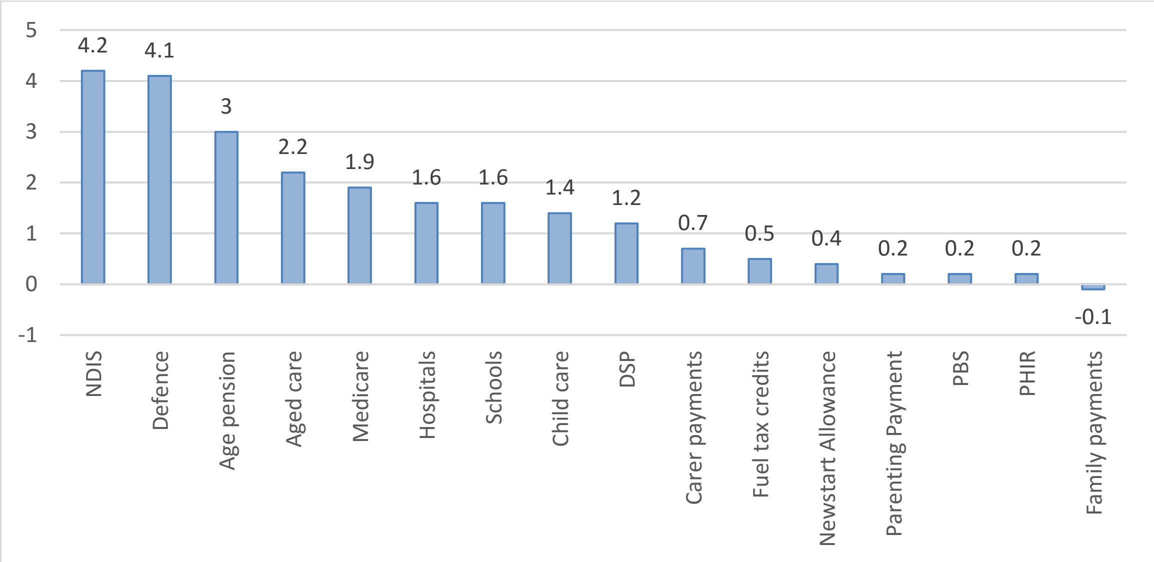
Note: Much of the impact of the 2014 budget was felt in 2016-17

More will have to be spent on essential universal health, aged care and disability services

There is no doubt that the ageing of the population, improvements in health care, and unmet need for disability and mental health services, affordable housing, child care and dental care among other essential services, as well as necessary improvements to social security to reduce poverty, will put increasing pressure on the budget over the next few decades, even without any major boost to funding in these areas.

[10] Australian Government (2014): Budget Paper No 1 Canberra

Figure 4: Contribution to projected growth in Budget spending from 2017-2028 (%)



Source: Parliamentary Budget Office (2017), '2017-18 Budget medium term projections.'[11]

Note: Based on 2017 policy settings

But we don't face a 'welfare blowout' as sometimes claimed

Australia does not face a 'welfare blowout', as demonstrated by the above graph. Due to our relatively low benefits and strict income-testing, Australia spends well below the OECD average level on cash benefits (at 9% of GDP in 2013 compared with a 12.4% OECD average).[12] Unemployment payments, which have been repeatedly targeted for budget cuts, represent less than 3% of overall budget spending.[13]

There has been a long term decline in reliance on working age payments. Despite the global financial crisis in 2008, in 2013 just 5% of people of working age relied on social security for more than 90% of their income; compared with 7% in 2001. [14]

---

[11] These official projections underestimate future health care costs, since Commonwealth funding to the States for hospitals was arbitrarily cut in the 2014 Budget and this remains an area of intense dispute between governments.

[12] OECD (2016): OECD Social Expenditure database. Most expenditure on cash payments is for Age Pensions and family payments.

[13] Whiteford, P (2017): Social security and welfare spending in Australia: Assessing long-term trends, Tax Transfer Policy Institute Policy Brief 1/2017

[14] Peter Whiteford (2015) Tales of Robin Hood (part 4): Social security and risk over the shot and medium terms

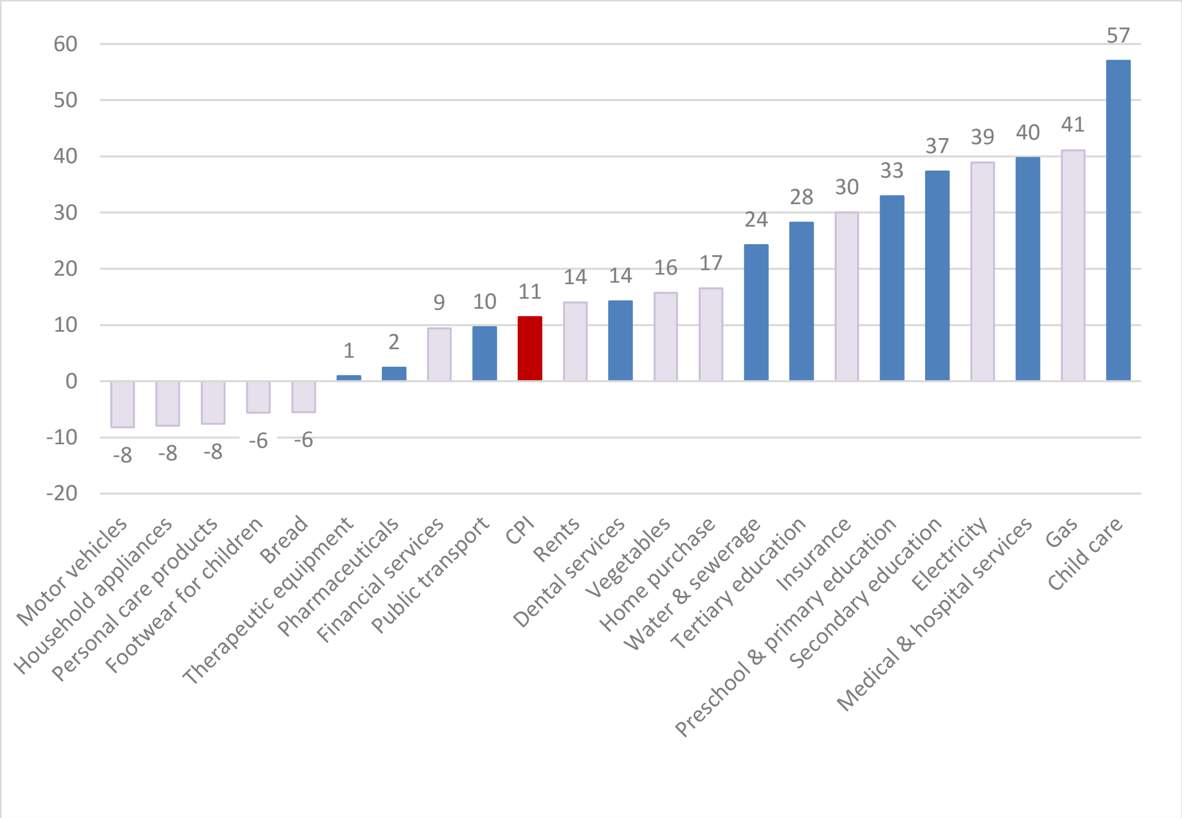
Figure 5: Reliance on income support among persons aged 18-64

Source: Wilkins, R (2016) [‘The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14’] University of Melbourne, p. 36

Tax cuts today mean cuts to essential services tomorrow

Tax and spending cuts, and a failure to grow services in line with demand, have come back to hit households through increases in the cost of services. The largest increases in the cost of living come from publicly-funded services such as health care, child care and education. Starving publicly-funded services of resources has contributed to people feeling pressured to pay for their own health, aged care, education and other essential services.

Figure 6: Price increases 2011-2017 (%)



ABS (2017): Consumer spending patterns and price change: How does electricity compare?

Note: Cumulative price increases; Dark bars are publicly-funded services

We have a choice: If we take a tax cut now, we face another horror budget down the track. Instead, we should defer any tax cuts (personal or corporate) until the budget is in better shape and essential services are properly resourced. At the same time, governments should strengthen the tax base by removing loopholes and shelters used by high income-earners and companies.

3 Social security

Key Messages

+ Our social security system fails to prevent poverty for people out of paid work and people raising children. The biggest risk to living in poverty is being in receipt of Newstart and related allowances.
+ As a first step, the single rate of Newstart and related allowances must be increased by $75 per week. New evidence shows that the single rate of Newstart with Rent Assistance falls $96 per week short of what is required to cover basic living costs.
+ Family payments are in urgent need of reform to reduce child poverty, starting with a supplement for single parents in recognition of the extra costs of raising a child on one's own.
+ Reform of working age payments should include indexation to wages and access to a $4,000 income bank for people receiving an unemployment payment.
+ Compulsory income management and cashless debit card trials should be abolished, with transition arrangements for people volunteering for these schemes.

3.1 Increase allowance payments to reduce poverty

Recommendation 1: From 1 January 2019, increase allowance payments for single people by $75 per week

(1) Allowance payments for single people should be increased by $75 per week from January 2019. This applies to people on Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit and Crisis Payment.

(2) Allowance payments for single people on youth and student payments (Austudy Payment, Abstudy Payment and Youth Allowance) who are either over 24 years of age or 18-24 years and living away from the parental home should also be increased by $75 per week from January 2019.

Costing: $1,600 million ($3,270 million in 2019-20)

Recommendation 2: Index allowance payments to movements in earnings

From January 2019, allowance payments for people aged 17 to Age Pension age, and those over pension age not eligible for an Age or Veteran's Pension, should be indexed to movements in wages as well as to movements in prices.

Costing: $220 million ($240 million in 2019-20)

The biggest risk factor to living in poverty is being locked out of paid work and in receipt of a social security payment.[15] People receiving unemployment and student payments (Youth Allowance, Newstart and related payments) have the highest rates of poverty because these payments are well below the poverty line.

The single rate of Newstart is $109 per week below the poverty line.[16] Youth Allowance is $158 per week below the poverty line.[17]

Poverty among single parents rose from 26% in 2003/04 to 29% in 2013/14 as single parents were moved from Parenting Payment Single to Newstart following the 2006 Welfare to Work changes.

Governments can reduce poverty by increasing these payments and indexing them to wage movements. We call on the government to increase these payments as a matter of urgency.

We are not alone in calling for an increase to Newstart and related payments. The Henry Report called for an increase to Newstart, as have the Business Council of Australia and KPMG, arguing that the low rate of payment presents a barrier to employment.[18]

Governments have justified the low rate of allowances by claiming they are a short term payment to 'tide people over' between jobs. However, 71% of people receiving Newstart have received the payment for 12 months or more. Further, the severity of living on such low incomes cannot be justified for even short periods of time, given the chaos that flows from severe financial deprivation, which negatively affects health, wellbeing and the capacity to pursue paid work.

People living on unemployment payments experience severe deprivation and are unable to afford a proper diet, essential health care services or secure housing. The Salvation Army's latest National and Economic Social Impact Survey found that:

- 45% of respondents went without meals,
- 91% were spending more than 30% of their income on rent (with 66% spending more than 50% on housing) and
- 90% did not have $500 in savings for an emergency.[19]

New research shows that single rates of unemployment payments are completely inadequate to cover basic living costs.

The Social Policy Research Centre at UNSW, in partnership with ACOSS, CSSA and United Voice, released its revised minimum budget Standards for Low-Paid and Unemployed Australians in 2017. It

[15] *Ibid*

[16] Defined as 50% of median income, adjusted for household size.

[17] ACOSS, SPRC (2016), *op cit*, p. 28

[18] KPMG (2016): A new reform agenda for Australia

[19] The Salvation Army (2017): National and Economic Social Impact Survey

found that the single rate of Newstart Allowance, together with Rent Assistance, falls $96 per week short of what is required to meet the most basic living costs.

Budget standards are based on very detailed research into the minimum cost of essential goods and services from food to housing, transport and dental care. A budget standard indicates how much income a particular family living in a particular place at a particular time needs to achieve a particular standard of living. Budget standards estimates are used in Australia to help guide the setting of the minimum wage and to assess the adequacy of social security payments.

ACOSS has revised its position on the amount by which unemployment and student payments should rise in response to this research and the clear level of deprivation experienced by people receiving these payments.

In this budget, the government must prioritise reducing poverty and inequality. As a first step, it should increase allowances by $75 per week (for single people), which would be the most effective immediate measure to alleviate poverty in Australia. These payments should also be indexed to wage movements. This is in addition to a 30% increase in Rent Assistance as discussed in Chapter 7, which would deliver a $20 per week increase for single people renting privately.

3.2 Reform family payments to reduce child poverty

Recommendation 3: From 1 January 2019, reform family payments to better target assistance and reduce child poverty

The following changes are proposed as a package of reforms, in conjunction with proposals to increase allowance payments and establish a payments commission to recommend payment benchmarks:

- **Index family payments to wage movements as well as to CPI:** Restore previous benchmarking of maximum rates of family payments to pension rates, based on the age of each child.
- **Replace FTB Part B for *single parent families* with a Single Parent Supplement:** The supplement should be benchmarked to the costs of children of different ages and reflect the diseconomies of scale experienced by single parents. As a starting point, the Supplement should be set at a level that brings single parent families with children in the middle and teenage years at least up to the same income level as families with children under 8 (currently receiving Parenting Payment Single), in conjunction with increases in unemployment payments. On current figures, this would require a Supplement to the value of $95 per week for a single parent family with one child aged eight or older. The purpose of the supplement is to ensure that this relativity correctly reflects the extra costs of raising a child alone.

Costing: $610 million ($630 million in 2019-20)

The latest ACOSS *Poverty in Australia* report released in October 2016 found that there are 731,000 Australian children living in poverty, representing 17.4% of children under the age of 15. This figure has increased by two percentage points over the past ten years.[20]

This is despite Australia being one of the wealthiest countries in the world, experiencing 20 years of sustained economic growth. Children in single parent families are at particularly high risk of poverty: 40% of all children in poverty in Australia live in single parent households.

The lack of any paid income in a family is the major cause of child poverty in Australia with 70% of all children in poverty living in households with no paid work.[21] This is also the major poverty risk among single parent families.[22] We can, and must, do better.

Thirty years ago, former Prime Minister Bob Hawke pledged to eliminate child poverty. While the Hawke government failed to achieve its ultimate objective, it successfully reduced child poverty in Australia by 30%. The family payments system was at the heart of this effort. Gains were achieved through a package of reforms to family assistance, including benchmarking payments to the costs of children and providing significant increases for low-income families. The linking of family payments to wage movements was a core part of this policy package.

Since then, successive government decisions have eroded the adequacy of income support including the family payments system, particularly payments for single parent families.

ACOSS advocates the urgent reform of the family payments system to achieve the following objectives:

1. reduce child poverty in Australia and ensure all children have an acceptable standard of living;
2. provide a stable and adequate foundation for the family payment system into the future, by benchmarking payments to the costs of children as they grow older, and indexing them to movements in wages and not just to CPI;
3. encourage paid workforce participation for those who have capacity to work by removing barriers or disincentives.

---

[20] *Op.Cit.*

[21] Peter Whiteford (2009): Family Joblessness in Australia A paper commissioned by the Social Inclusion Unit of the Department of Prime Minister and Cabinet, p.4.

[22] OECD (2011): Families are Changing p. 40.

3.3 Establish a Social Security Commission and reform working age payments

Recommendation 4: Establish a Social Security Commission (1 January 2019)

A Social Security Commission should be established as a statutory authority to advise the government and parliament on the adequacy of social security payments.

Costing: $7 million ($7.5 million in 2019-20)

The Commission would regularly report to the parliament on the financial needs of people relying on social security payments, appropriate relativities between payments, rewards for paid work, and budgetary costs and employment incentive implications of policies to improve payment adequacy.

ACOSS envisages that the commission would play a key role in payment redesign, in line with ACOSS's proposal of one base rate of payment sufficient to meet basic living costs, supplemented by add-on payments that cover the extra costs of individuals' circumstances (disability, children, job search, etc.).[23] This structural reform would remove arbitrary inequities between payments and ensure payment rates reflect basic financial needs.

3.4 Reform of working credit: Income Bank

Recommendation 5: From 1 January 2019, replace the working credit scheme with a $4,000 income bank

From 1 July 2018, replace the working credit scheme for Newstart and Youth Allowance (Other) recipients with a $4,000 income bank that accrues from the day they start receiving the allowance. The income bank would reach the full amount after six months if the person has been without work. The income bank would be indexed to the Consumer Price Index annually.

Costing: $310 million ($320 million in 2019-20)

The income tests for Newstart and Youth Allowance (Other) are complex and inconsistent. They act to reduce the adequacy of incomes of people in low paid employment, especially people with intermittent casual work. The complexity of the system gives rise to overpayments and debts.

Newstart recipients may earn $52 per week before their allowance is reduced by between 50 and 60 cents in the dollar. This means that someone earning the minimum wage would exceed the income-free area and start to lose payment after working just 2.8 hours per week. A Youth Allowance recipient looking for paid work may earn up to $71.50 per week before their payment is affected, despite being in the same position as a Newstart recipient.

Both allowances have a working credit system that operates, on the face of it, like an income bank, but in reality is complicated and inconsistent with income test thresholds. For Newstart Allowance, a

---

[23] ACOSS (2014): Submission to Review of Australia's Welfare System

working credit accrues by up to $48 per fortnight if earnings are less than $48 per fortnight (which bears no relation to the income-free threshold of $52 per week). The maximum amount of working credit a Newstart recipient may accrue is $1,000 and Youth Allowance (Other) is $3,500, which are relatively small amounts and take extended periods of time without paid work to accrue under current policy settings.

To make reporting of income easier and increase the real incomes of people in low-paid casual work, ACOSS proposes that people receiving an unemployment payment have access to an 'income bank', similar to that available to students and Age Pensioners.

3.5 Income management and the cashless debit card

Recommendation 6: From 1 July 2018, abolish compulsory income management and the cashless welfare card trials

Compulsory income management and cashless debit card trials should be abolished in all states and territories.

Saving: $56 million ($57.5 million in 2019-20)

Transition arrangements should be put in place for individuals and communities wishing to retain voluntary income management and cashless card schemes. Opt-in schemes should be co-designed with communities and include supports and services as elected by communities, which could include drug and alcohol services, financial counselling, mental health and social support services.

4 Improve job opportunities for people out of paid work

Key Messages

+ At 5.4% in November 2017, unemployment remains too high. With political commitment and the right policy mix, it should be possible to reduce it well below the ’minimum’ level of around 5% often assumed by policy-makers.
+ We welcome the government’s establishment of a Panel to consult with experts and the community over the design of the future employment services system after jobactive contracts expire in 2020. It is vital that the Panel and the government hear the experiences of unemployed people as well as employers and local community services.
+ In the interim, the government should urgently invest in improved services for the 600,000 long-term recipients of unemployment payments, who are not getting the help they need to secure a job. Funds devoted to schemes such as Work for the Dole which emphasise compliance over positive support for people should be redirected to a flexible Employment Fund mainly targeting people unemployed long-term.
+ A new Career Transitions program should be introduced to assist those who have been out of the labour force for an extended period with caring or other responsibilities.
+ The CDP program, which over just two years has imposed 350,000 financial penalties on people living in remote Aboriginal and Torres Strait Islander communities, should be replaced by a new program led by local communities that provides realistic pathways to employment and maintains the social security entitlements that apply to the rest of the country.

4.1 Make jobactive work for people disadvantaged in the labour market

Recommendation 7: Improve the effectiveness of jobactive

(1) From July 2018, service fees for people who are unemployed for more than 12 months, or in Streams B or C, should be increased from $270 to $377 each six months (higher with regional loadings).

Cost: $50 million ($50 million in 2019-20)

(2) Funds earmarked for Work for the Dole (including for Work for the Dole fees and placement fees) should be untied and redirected into the Employment Fund to assist individuals who are unemployed long term with work experience, training and other assistance that improves their job prospects.

Saving: $100 million ($100 million in 2019-20)

(3) Credits should be made to the Employment Fund in respect of each jobseeker at the commencement of 12 months and 24 months of unemployment, equivalent to those made at the commencement of the unemployment spell, to assist with barriers to employment and help finance 'mutual obligation' activities.

Cost: $300 million ($300 million in 2019-20)

(4) The Employment Fund should be divided into two parts:

   a. an 'investment fund' for substantial investments in activities and services that improve employment prospects (above and beyond assessment and job search assistance), such as work experience, training, relocation assistance, and professional services; and

   b. an 'incidental expenses' fund for expenses faced by jobseekers and providers (such as travel to interviews, work related clothing and equipment, and use of interpreters) which is notionally distributed according to local need for these services (for example, based on remoteness and English-language proficiency).

(5) Employment Fund credits should be available for training whether or not this is linked to a specific job, and for the purpose of establishing 'demand-led' schemes, that is, a formal agreement with an employer to supply them with workers drawn from people who are either unemployed long term or classified within Streams B or C, and to mentor and train those workers for positions with the employer.

(6) The impact of the above changes should be evaluated, for example by comparing employment outcomes for similar unemployed people who receive different forms of assistance through the Employment Fund.

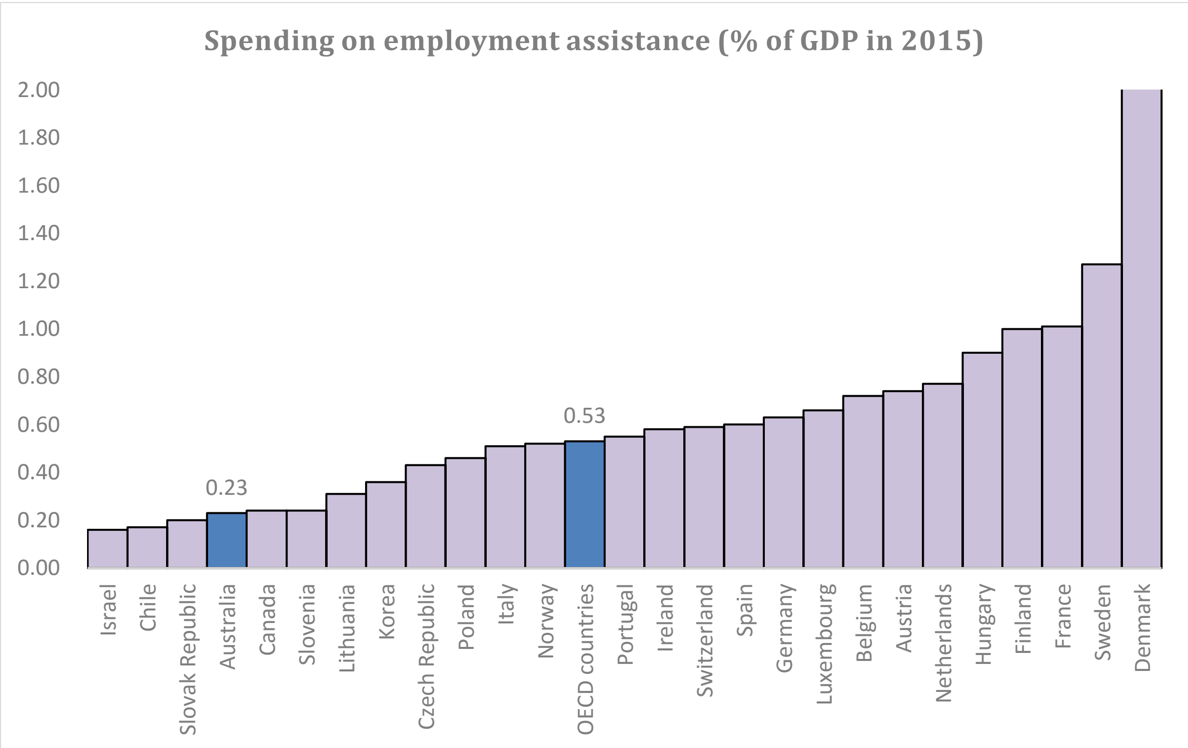
Total cost: $250 million ($250 million in 2019-20)

Unemployment remains too high (5.4% at November 2017). With political commitment and the right policy mix, low levels of inflation imply that it could be reduced to well below the minimum level of around 5% often assumed by policy-makers. Reducing prolonged unemployment is the most important task for our employment services system and should be a core focus of public investment and policy. Over half a million people - 70% of those receiving unemployment payments - have had to rely on income support for more than 12 months and many face major barriers to work. Once people are unemployed long term, their future job prospects diminish.

Australia under-invests in employment assistance. In 2014, the Australian Government spent 0.26% of GDP, half the OECD average of 0.53% on active labour market programs.[24]

After years of funding reductions in employment services, most unemployed people assisted by jobactive receive little more than help to prepare a CV, assistance with job search, and short interviews which are as much about supervising benefit compliance as helping them find paid work. The reasons for this lie in the way jobactive services are funded. Australia invests less than half the OECD-average level in employment assistance, as a share of GDP (Figure 7).

Figure 7: Australia spends less than half the OECD average on employment assistance



Source: OECD Social expenditure data base.

[24] OECD Social expenditure database

Employment service providers receive 'administration fees' of just $270 for six months to assist most unemployed people together with a one-off up-front 'Employment Fund' credit of up to $1,290 to invest in work experience, training and other supports. This fund is not replenished for people unemployed over 12 months, except to fund 'Work for the Dole' places or wage subsidies.

Providers mostly use the Fund to finance low-intensity assistance such as very short training courses, boots and clothing and fares assistance, but most people unemployed long-term need much more than this, for example work experience in regular paid jobs, vocational training, professional services and relocation assistance.

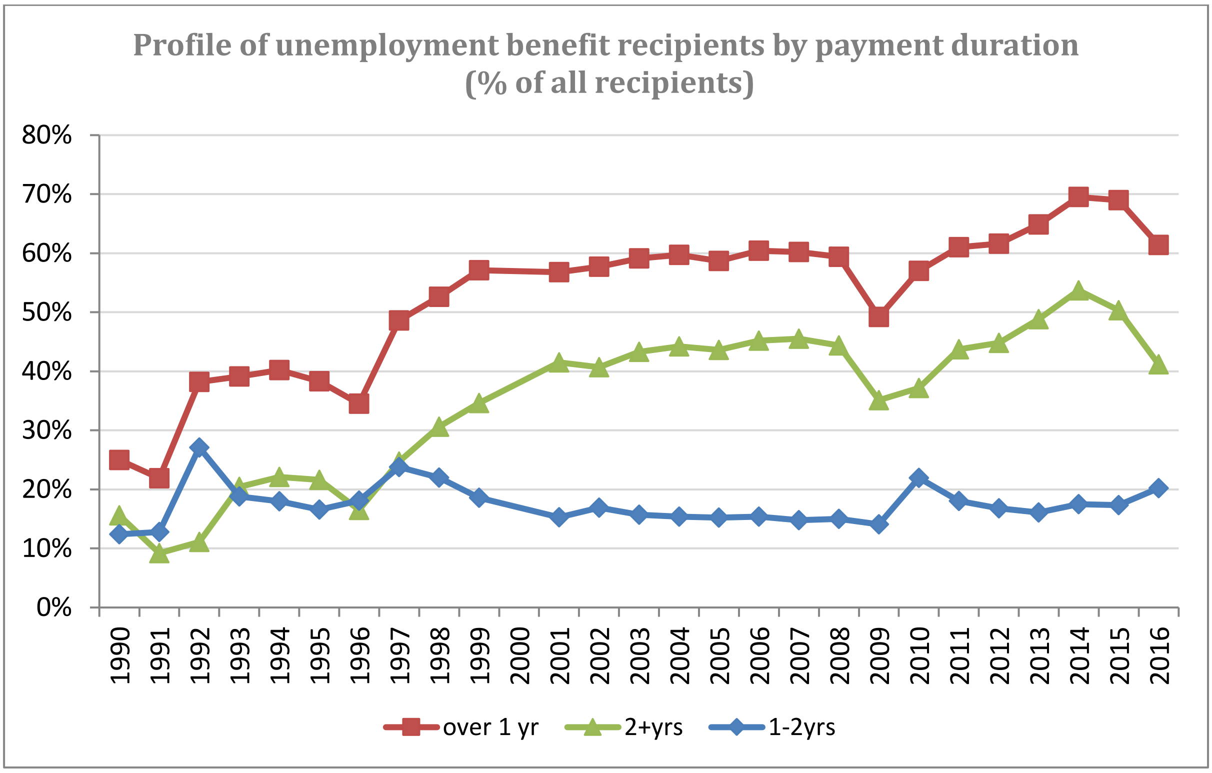
Providers also receive payments for employment outcomes (typically from $390 to $11,860 for employment sustained for six months depending on labour market disadvantage), but this mainly encourages low-cost interventions that move people who are already closer to paid work into jobs quickly. The result is a standardised 'cookie-cutter' approach to employment services.

The lack of intensive help for people unemployed long-term is one of the reasons for the rise in the number and share of long-term Newstart and Youth Allowance recipients since the Global Financial Crisis (Figure 8). In September 2017, 600,000 people had already received unemployment payments for more than 12 months, and most of this group had to rely on benefits for over two years. Among long-term unemployed people in 2015, less than one third were off benefits 12 months later.[25]

---

[25] McGiurk, E (2016): **Analysis of long-term unemployed income support recipients** Long-Term Unemployed Conference – Brisbane, December 2016.

Figure 8: A growing share of unemployment payment recipients is unemployed long-term



Source: Department of Social Services, Statistical overview of social security payments.

In 2017 approximately $100 million was spent on the Work for the Dole program. This is the default activity for 'mutual obligation' for people unemployed long term, which they are required to undertake for six months each year. Participation in work for benefits schemes has little impact on people's employment prospects. An evaluation of Work for the Dole in 2014 found that the average impact of participation in the program on the probability of employment was just two percentage points.[26]

The main reason for the program's poor performance is that the work experience participants receive is usually far removed from paid employment. If, on the other hand, they were engaged in regular productive employment, then they should be paid the legal wage. It is not reasonable to require people to join a program that will not improve their job prospects, especially where it involves working for less than the minimum wage – as is the case for those required to work for

[26] Employment Department (2015): Work for the Dole 2014-15 Evaluation Report An official evaluation of the United Kingdom's equivalent scheme, 'Mandatory Work Activity', found that participation had no significant effect on people's employment prospects (McGuinness F (2014): **Work Experience Schemes**, House of Commons Library).

benefits for 25 hours a week. This is also one of our main concerns with the unpaid 'internships' in the Youth Jobs Path program.[27]

Wage subsidies for temporary paid employment in regular paid work are more effective in improving people's job prospects, and they ensure the person is paid properly for work done. Well-targeted wage subsidies often pay for themselves through future savings in unemployment benefits.[28]

To increase the flexibility of employment assistance for people who are disadvantaged in the labour market, restrictions on access to vocational and other training through jobactive should be removed. As long as support for training is restricted to preparation for a particular job, opportunities for people whose skills are out of date to improve their employability are arbitrarily restricted.

A close working relationship between employment services providers, training organisations and employers is essential to improve the employment prospects of people disadvantaged in the labour market. The jobactive system throws up hurdles to such cooperation, including competition among individual providers, the limited resources available to providers to invest in the work required to establish these relationships in the first place, and a reward structure that emphasises quick outcomes rather than patient investment.

[27] ACOSS (2016): Youth Jobs PaTH program, submission to Senate Employment and Committee

[28] Department of Employment (2014): **Effectiveness of wage subsidies in Job Services Australia.**

4.2 Career support for people with significant time out of the paid workforce

Recommendation 8: Introduce a Career Transitions Scheme

(1) A career transitions scheme should be introduced either within or outside the jobactive system, to offer career counselling, skills assessment, and access to suitable training at an early stage of unemployment to the following people in receipt of working age income support payments who are seeking to enter or return to paid employment and have not had experience of paid work over the last 12 months:

- primary care-givers of children or people with disabilities and people who recently relinquished the caring role (who would also be offered help to secure alternative care);
- people of mature-age (50 years or over);
- young people (under 25 years) who have not completed Year 12 or equivalent education and are not participating in the Transition to Work program.

(2) For those identified as significantly disadvantaged in the labour market, career counselling should be integrated with other forms of assistance, including where appropriate paid work experience in regular jobs.

(3) The impact of the scheme on employment and training outcomes should be evaluated, for example by implementing it in stages and comparing results for participants and non-participants from the same target groups.

Cost: $50 million ($70 million in 2019-20)

Many people who have been out of paid work for a long time, together with young people with limited qualifications who are seeking paid work for the first time, would benefit from skills assessment and career counselling. This would help them identify the occupations that suit their skills and aspirations and the training and other support they need to secure employment in this line of work. Previous programs such as the Jobs Education and Training (JET) scheme and the Employment Preparation program for sole parents, carers and mature age workers returning to paid work were relatively effective in identifying and strengthening 'latent skills' and improving future employment prospects, at a modest cost to the budget.[29] These schemes offered career counselling, a fund for service providers to invest in vocational training tailored to individual needs, and assistance to locate suitable child care where needed.

Assistance of this kind is available for young people through the Transition to Work program but is not generally available through jobactive because providers are not resourced to offer it, and due to

[29] Department of Employment and Workplace Relations (2006): **Employment assistance, a net impact study**

the abovementioned restrictions to investment in vocational training. A new career transitions program should be developed for administration by jobactive providers or as a stand-alone scheme.

4.3 Replace the Community Development Program

Recommendation 9: Replace the Community Development Program

The Community Development Program should be replaced by a new, community-led employment services scheme for people in remote Aboriginal and Torres Strait Islander communities along the lines of the Remote Development and Employment Scheme proposed by Aboriginal Peak Organisations Northern Territory (APO NT). The new scheme should maintain entitlements to social security payments and should not impose more stringent activity requirements than those applying to unemployed people generally.

Costing: Revenue neutral

The Community Development Program (CDP) is failing to improve the employment prospects in remote communities and is disadvantaging people affected. In just two years, 350,000 penalties were imposed in a program assisting 33,000 people. Unlike the former Community Development Employment Program (CDEP), it does not provide waged work and therefore does not address the key reason for unemployment in these areas: a lack of jobs.

The centrepiece of CDP – 25 hours a week of 'Work for the Dole' for 46 weeks per year paid at $11 an hour – is not a path towards the regular labour market. It is a dead-end of compulsory 'activity for activity's sake' that leaves communities impoverished.

There is a large opportunity cost in spending $270 million of public funds to a scheme that is unlikely to improve people's employment prospects and diverts the limited resources of local employment services to administration of social security compliance instead of helping people prepare or search for jobs.

The solution to these problems is not for employment service providers to take on the functions of Centrelink in administering social security in communities, as the government proposed in 2016. The result would be the worst of both worlds, with activity requirements and penalties still dictated from Canberra and local services forced to apply them.

Reform of CDP should be based on the following principles:

i. It must be led by Aboriginal and Torres Strait Islander people.

ii. People living in remote areas must have the same social security rights as people living elsewhere. This includes statutory entitlements to social security payments administered by the Department of Human Services, and that, where discretion is required in decision-making on payments, this is exercised in a fair, consistent and transparent manner.

iii. Mutual obligations in regard to social security payments must concern employment only and should be fair, appropriate and tailored to individual communities, and no more onerous than those applying to the general community.

iv. Remote employment programs must include paid work under regular employment conditions in view of the limited job opportunities in these communities.

v. Other employment services should be designed and administered, as far as possible, by communities themselves, to prepare people for paid employment and connect them with employers rather than 'activity' for its own sake.

We endorse the Aboriginal Peak Organisations Northern Territory's (APO NT) proposed replacement for CDP called 'Remote Development and Employment Scheme'[30], which is a workable alternative that would empower local communities and generate jobs. It would also refocus remote employment services away from meaningless activity and large-scale penalties towards realistic pathways to employment and makes a real contribution to the well-being of communities.

We support APO NT's proposals for employment generation through a local investment fund, enterprise development, traineeships for young people, and partnerships between communities, employers and government. Importantly, people should keep the legal entitlements to social security that apply to the rest of the country and benefit from paid work opportunities controlled by communities at the same time.

The new program should be community-driven, with sufficient flexibility for local communities to alter the mix of jobs, services, requirements and supports to meet local needs. For this reason it is desirable, as APO NT proposes, that it be administered, monitored and evaluated at the national level by an independent body led by Aboriginal and Torres Strait Islander people with relevant expertise.

[30] Aboriginal Peak Organisations Northern Territory (2017): Fair Work and Strong Communities: Proposal for a remote Development and Employment Scheme

5 Creating a fairer tax system that supports economic development

Key messages

- More public revenue should be raised in a way that minimises any harm to equity or economic development.
- The best way to raise revenue, while improving economic efficiency and equity at the same time, is to remove tax shelters, loopholes and other unjustified inconsistencies in the tax base.
- Concessional tax treatment of capital gains and deductions for borrowings to invest in real estate and shares (negative gearing) should be restricted. These concessions have spurred speculative investment in real estate, hiked house prices, and drawn investment away from more productive activities.
- Public revenues are also undermined, along with a considerable waste of private resources, in complex tax avoidance schemes using private trusts and companies, and through the exploitation of tax havens.
- Tax concessions should be subject to the same budget scrutiny as direct expenditures. This includes business tax breaks that mainly benefit well-established industries and are no longer fit for purpose.

5.1 Tax investment income fairly and consistently

Recommendation 10: Reduce the general Capital Gains Tax discount for individuals and trusts

The exemption of 50% of personal capital gains from Capital Gains Tax should be reduced from 50% to 25%, phased in over ten years commencing 1 July 2019.

Revenue: $0 ($600 million in 2019-20)

There is a case for taxing investment income at lower rates than income from paid work on the grounds that capital is more mobile and sensitive to tax levels. At the same time we should ensure that taxes on different investment incomes are consistent. Otherwise, the tax system will distort economic decision-making in ways that are harmful to Australia's economic development.

One of the most harmful distortions is the 50% discount on tax rates for capital gains received by individuals and trusts. Treasury estimates that the cost to revenue of this tax break was $9.6 billion per annum in 2016-17.[31] This encourages excessive speculative investment in property and other assets yielding capital gains and it is one of the reasons for our inflated home prices.

The concessional treatment of capital gains compared with other investment income (such as interest and active business income) diverts investment from other purposes as well as fuelling boom and bust cycles in the economy. It also overwhelmingly benefits the top 10% of taxpayers, who receive two-thirds of all capital gains.[32] We propose that this concession be halved, so that three-quarters of capital gains are taxed.

Recommendation 11: Abolish inequitable small business Capital Gains Tax concessions

The following tax concessions for capital gains from the disposal of small business assets should be phased out over five years from 1 July 2019:

- the additional 50% discount for these capital gains;
- the exemption for gains on assets held for over 15 years; and
- the exemption for gains used for retirement purposes.

Revenue: $0 ($300 million 2019-20)

In addition to the 50% 'discount', the sale of certain small business assets (such as land and buildings) attracts further concessions: the 50% tax discount is doubled and there are exemptions for capital gains held for over 15 years and those used for 'retirement purposes.' Together, these concessions mean that many business owners with substantial personal wealth can avoid paying Capital Gains Tax (CGT) altogether, an inequitable outcome.

The original purpose of these small business concessions was to help fund retirement for small business owners. This is a risky approach to retirement saving. These special tax breaks also encourage over-investment in business assets as against other strategies to improve profitability and save for retirement, and they mainly benefit wealthier business owners. Small business owners should instead be encouraged to save for their retirement through superannuation.

[31] Treasury (2016): Tax Expenditures Statement 2016 Commonwealth of Australia

[32] Daley J & Wood D (2016): Hot property: negative gearing and the capital gains tax discount Grattan Institute, Melbourne.

Recommendation 12: Restrict deductions for personal investment expenses (negative gearing)

(a) Income tax deductions for expenses (such as interest payments on debt) relating to passive investments in assets yielding capital gains (such as housing, shares and collectables) should be limited to income received from those assets, including capital gains realised on subsequent sale. This should apply to all new investments of this type entered into after 1 January 2019.

(b) Part of the revenue saved from this measure should be used to introduce a two-tier rental housing investment incentive paid as an annual tax offset for a ten year period in respect of new dwellings or improvements for residential rental purposes, below a fixed construction cost. A higher rate would apply to dwellings defined as 'affordable rental housing', as part of a wider package of incentives to support investment in affordable housing (in which rents are held at 20% below median market levels for 10 years).

Revenue: $150 million ($300 million in 2019-20)

The distortion of investment caused by capital gains tax concessions is exacerbated by the unlimited deductions for losses on investments in property and other assets yielding capital gains such as shares, agricultural schemes, and collectables. Australia is unusually generous in placing few restrictions on these deductions. This has encouraged 'negative gearing' where investors deliberately incur losses on their investment for a number of years to maximise deductions against their other income.

These deductions are poorly matched with income from the investment, mainly capital gains. The deductions are typically claimed against wages which are taxed every year at the individual's marginal tax rate, but the capital gains are only taxed at half that rate, and often years later when the asset is sold. The result is a strong bias in favour of debt-financed investment in property, shares and other assets.

Our proposal is to quarantine deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2019 to offset income received from those assets, including capital gains realised on their subsequent sale. Investors could still claim deductions, but they would be better matched with investment income. Assets acquired before that date would be 'grandfathered' so that deductions can still be claimed under the present rules.

Part of the revenue saved would be devoted to a two-tier rental housing investment incentive for the construction of new dwellings whose building costs fall below a certain value, outlined in Chapter 5 (Housing). This would be paid at a substantially higher rate to encourage construction of new affordable dwellings (where rents are held at least 20% below market rents).

The integrity of CGT would also be improved by our recommendation to tighten the tax treatment of superannuation fund earnings post-retirement, in Chapter 6 (retirement incomes). Until this is done, many wealthy individuals can avoid paying CGT altogether by accumulating capital gains in self managed superannuation funds and delaying sale of the assets until after retirement.

5.2 Strengthen the personal income tax system and curb avoidance: Private trusts and companies

Recommendation 13: Curb the use of private trusts to avoid personal income tax and conceal income

(1) From 1 July 2019, closely-held express trusts (both discretionary and fixed) should be taxed as companies. This would not apply to certain categories of trusts including collective investment vehicles, complying superannuation funds, disability trusts, and trusts established pursuant to court orders.

(2) If this is not adopted, from 1 July 2019 Capital Gains Tax should apply to untaxed and preferentially-taxed distributions to the beneficiaries of closely-held discretionary trusts, including distributions arising from asset revaluations.

(3) From July 2018, the scope of the corporate tax transparency regime should be extended so that the ATO publishes basic accounting and tax information on all business and investment entities (including companies, trusts and partnerships) with annual turnover over $100 million.

(4) A public register should be established by the ATO to hold the following information in regard to trusts that are required to lodge tax returns: the names and tax file numbers of the trustee, controller, beneficial owner, any beneficiaries that are not natural persons (for example other trusts or companies), and (where the trust is not a family trust) all other beneficiaries.

Revenue: $0 ($1,500 million in 2019-20)

Tax avoidance through private trusts and companies threatens the integrity of the tax system

Tax avoidance has proliferated over the last few decades due to the failure of governments to remove shelters and loopholes from the income tax system. The three most important are superannuation, the treatment of capital gains and related deductions, and the inconsistent tax treatment of different entities especially private trusts and companies. If reforms to reduce the damage done by superannuation and capital gains are implemented, there is a risk that high income-earners and their advisors will turn to the remaining tax shelters, especially private trusts and companies.

Private (closely held) trusts, especially discretionary trusts, can be used to avoid income tax by splitting income with a family member, delaying or avoiding payment of CGT, and by passing on the benefits of investment tax breaks from the trust to its beneficiaries (unlike the tax treatment of companies).[33] Although the intention of current tax policy is that any income that is not taxed in the hands of beneficiaries is instead taxed in the hands of the trust, this is not consistently applied.

Private trusts and companies are also used to (illegally) evade tax and launder money by shifting funds through complex chains of entities or to 'tax havens' such as Panama, Bermuda, or Switzerland.

There were 643,000 discretionary trusts in Australia in 2014-15, almost twice the number two decades earlier. Just over half are passive investment trusts while just under half are trading trusts for active businesses. Contrary to an often-expressed view, less than 5% are farm trusts. In 2013-14 their total taxable income was $80 billion, with the vast bulk of this held on behalf of the top 10% of households by income.[34]

No serious action has been taken to stem the use of trusts to avoid tax since the Howard government announced, but did not implement, its proposal to tax discretionary trusts as companies in 1998.

We welcome the Labor Party's proposal to, if elected, curb tax avoidance through income-splitting by raising the tax rate on distributions from discretionary trusts to a minimum of 30% (the same as the company tax rate). Action should also be taken to curb the other uses of private trusts to avoid and evade tax, including avoidance of CGT and concealment of income.

Tax private trusts as companies

One way to comprehensively close off these tax avoidance opportunities is to tax private trusts as companies as recommended in 2000 by the Review of Business Taxation (Ralph Review).[35] This would also improve consistency in the tax treatment of different entities, especially the treatment of tax-preferred income (tax concessions). On the other hand, it would enable high income-earners to exploit the gap between the company tax rate and higher personal tax rates by retaining income in the trust, so this weakness in the tax treatment of private companies should also be addressed.

We propose that closely-held trusts (both fixed and discretionary) be taxed as companies, with exemptions similar to those recommended in the Ralph Review including complying superannuation funds and disability trusts.

[33] A discretionary trust is one in which the trustee has discretion to distribute trust income to beneficiaries each year as they see fit in accordance with the trust deed. This flexibility means that they are the most commonly-used form of trust for tax avoidance purposes.

[34] Australian Taxation Office (2017): Taxation Statistics, Commonwealth of Australia; Richardson D (2017): Trusts and tax avoidance Australia Institute.

[35] Review of Business Taxation (1999): 'A Tax System Redesigned: More certain, equitable and durable'. Available: http://www.rbt.treasury.gov.au/

Alternatively, apply CGT to un-taxed or concessionally-taxed income

An alternative approach is to apply CGT to un-taxed or concessionally-taxed income (for example, where taxable income is reduced by building works deductions) of private discretionary trusts when it is distributed to beneficiaries. Currently, these distributions do not attract CGT, including where capital gains are realised through 'asset revaluations' within the trust. This would bring the tax treatment of discretionary trusts into alignment with that of fixed trusts, and curb avoidance of CGT.

Public reporting for all business and investment entities with annual turnover of $100M+

The use of private companies and trusts to avoid or evade tax is facilitated by a lack of transparency in public reporting (and in many cases a dearth of information available to tax authorities), especially regarding the ownership and control of private trusts. The ATO publishes tax information for public companies with income exceeding $100 million and private companies with turnover exceeding $200 million. There is no sound reason for the lower threshold for private companies, and the absence of public data on large private trusts is a glaring gap in our tax transparency regime.

The widespread use of private companies and trusts to evade tax and launder money through secrecy jurisdictions or 'tax havens' was exposed by revelations from 'Operation Wickenby' (Switzerland), 'Panama Papers' (Panama) and the 'Paradise Papers' (Bermuda).

Australia was a prominent supporter of the G20 initiative to curb these practices by improving the transparency of beneficial ownership of companies and trusts. Australian governments have also participated in the OECD's Base Erosion and Profit Shifting (BEPS) initiative to stem multinational tax avoidance.[36] Despite this, government action to establish registers of the beneficial ownership and control of private companies and trusts has been tardy.

Establish a public register for private trusts

There is no public register for private trusts. To encourage tax compliance and curb money laundering, basic information on private trusts should be published by the ATO on a public register, akin to the register for companies. The privacy of beneficiaries of family trusts (apart from related entities such as trusts and companies) could be protected by excluding their details from the register where the trustee has elected to register it as a family trust.[37]

---

[36] G20 nations (2014): **High-Level Principles on Beneficial Ownership Transparency** Brisbane; OECD (2017): [Peer Review Report on the Exchange of Information on request: Australia]

[37] Where a family trust election is in force, the transfer of income or losses beyond beneficiaries who belong to the family that owns the trust is discouraged by a penalty tax.

Prevent personal income tax avoidance through the use of private company structures

Recommendation 14: Prevent the use of private companies to avoid personal income tax

From 1 July 2019, income retained in private companies, apart from a reinvestment allowance for companies engaged in active business (comprising a fixed proportion of the assets of the company), should be taxed at the top marginal rate of personal income tax plus Medicare Levy.

Revenue: $0 ($1,400 million in 2019-20)

Private companies are also widely used to avoid tax, often in conjunction with discretionary trusts. These arrangements take advantage of the gap between the top marginal rate of personal income tax and the company tax rate.

The use of 'cashbox companies' to avoid personal income tax by retaining income in a private company should be curbed by taxing retained earnings (minus a reinvestment allowance for active businesses) in private companies at the top marginal personal tax rate plus Medicare Levy. This tax treatment would also apply to private trusts taxed as companies under the reform proposed above. Where the owner of the private company would ordinarily face a lower personal tax rate they could distribute company income to themselves in the form of dividends or wages.

This reform has become more urgent now that the company tax rate has fallen to 27.5% for companies with annual turnover below $50 million. This would otherwise provide windfall gains to high income-earners using companies as business vehicles.[38]

[38] The government proposes to legislate to restrict the lower company tax rate to active businesses, as distinct from passive investment vehicles. Nevertheless, incorporated active business entities with turnover of up to $50 million include many owned by high income-earners (for example, professional practices). Business owners with low to modest incomes are less likely to incorporate.

5.3 Fair and efficient business taxes

Recommendation 15: Curb international business tax avoidance

Base Erosion and Profit Shifting by companies operating internationally should be curbed by making the following changes from July 2019:

(1) Tighten thin capitalisation rules so that allowable debt deductions are based on a company's global debt-equity ratio.

(2) Improve the transparency of reporting on business income and taxation flows by requiring public disclosure of the ultimate beneficial ownership of companies registered in Australia; requiring the ATO to publicly release 'high level reports' under the OECD country-by-country reporting initiative in regard to companies with turnover above $750 million; and requiring the ATO to share information on the tax status of trusts and partnerships as well as companies with other tax authorities pursuant to international agreements.

(3) Apply special withholding taxes on transfers of funds to 'secrecy jurisdictions' that do not provide effective information exchange pursuant to international treaties.

Revenue: $0 ($500 million in 2019-20)

Recommendation 16: Abolish fuel tax credits for off-road use

Fuel tax credits for off-road use, except agriculture, should be abolished from July 2018.

Revenue: $2,000 million ($2,000 million in 2019-20)

Recommendation 17: Remove immediate deductions for mining exploration

The immediate deduction for mining exploration should be abolished from July 2018.

Revenue: $500 million ($300 million in 2019-20)

The government's proposed company income tax reductions would reduce future revenues by an estimated $1.8 billion in 2019 rising to $14 billion in 2026, while the Treasury projects that they will increase household spending power in approximately 20 years' time by less than 0.7%. This is a poor return for a costly investment.[39] Further, there is no evidence to suggest that concentrating company tax reductions on small rather than large companies would make the economy more productive or that it would lead to more and better jobs.

[39] Kouparitsas, M et al (2016): *Op.Cit*. Discussed in ACOSS (2016): Treasury Laws amendment (Enterprise tax plan) Bill 2016, Submission to Senate Economics Legislation Committee

Rather than simply reduce tax rates, business tax reform should remove harmful distortions and inconsistencies and support productive economic activities that are likely to yield stable gains for investors, decent employment opportunities, and reduced environmental harm. Taxation rules should also ensure that profitable business activities in Australia are contributing fairly and efficiently to the collection of public revenue.

As with all tax expenditures, there is a risk that business tax concessions become entrenched over time regardless of their economic benefits. As with public expenditures, the purpose of each concession, and whether it is being achieved, should be regularly reviewed. Concessions that are no longer fit for purpose should be removed.

Many business tax concessions benefit particular industries - especially those that are well established and influential - without meeting a clear public purpose. In doing so they indirectly disadvantage other industries, including emerging sectors. For example, the fuel tax offset for off-road use, together with immediate deductions for mining exploration costs, disproportionately benefit the mining industry. There is no public policy justification for favouring mining over other economic activity that contributes to economic growth and employment opportunities. The original rationale was that the purpose of fuel excise was exclusively to fund publicly-used roads. This is questionable. Fuel taxation is a mechanism for generating general government revenue and reducing our reliance on environmentally harmful fossil fuels.

Globally, it is now recognised that governments must collaborate to prevent harmful and unfair tax avoidance and evasion by corporate and other business entities. The G20 countries have set the standard that: 'Profits should be taxed where the economic activities deriving the profits are performed and where value is created.'[40]

The government has implemented welcome reforms to tackle corporate tax base erosion and to prevent the shifting of profits offshore, including the introduction of a Diverted Profits Tax and a Multinational Anti-Avoidance Law (MAAL). More needs to be done. Too many corporations operating profitably in Australia pay little or no tax. Improving the financial transparency of multinational companies operating in Australia would help change this behaviour. Further, the 'thin capitalisation' rules designed to prevent the shifting of debt to Australia to avoid tax should be strengthened and the use of 'tax havens' or secrecy jurisdictions for this purpose should be discouraged.

See other Revenue recommendations in Chapter 6 (retirement incomes), Chapter 7 (housing), Chapter 8 (health) and Chapter 9 (community services).

[40] OECD (2013): Addressing Base Erosion and Profit Shifting, OECD Publishing, p. 39.

6 Adequate, fair and sustainable retirement incomes

Key messages

+ Security in retirement depends on more than an adequate income. It also depends on affordable housing (Chapter 7) and health care services (Chapter 8). We propose reforms to retirement tax concessions that are linked to guaranteed access to affordable, quality health and aged care.
+ Superannuation tax concessions are very costly, totalling $33 billion in 2016-17, almost as much as the Age Pension.
+ Despite the welcome introduction last year of caps on tax breaks for the wealthiest, the tax treatment of super contributions remains fundamentally biased towards people with higher incomes. It is also far too complex
+ The flat 15% tax on employer contributions (up to $25,000 a year) is inequitable, benefitting those with the most, at the expense of people with the least, and with a higher proportion of tax breaks going to men than to women. A two-tiered contributions rebate would provide for a fair, simpler superannuation system.
+ Tax concessions for large contributions should be limited, including reducing the 'non-concessional contributions cap' and no longer allowing people to 'bring forward' three years of contribution under the cap. Concessional contributions should be limited to net annual additions to superannuation savings.
+ Counter-productive housing-related superannuation concessions should be abolished.
+ Revenue savings from removing the tax-free status of super fund earnings after retirement and tightening age-based tax rebates (SAPTO) should be earmarked to expenditure on health and aged care services.

6.1 Fair taxation of superannuation contributions

Recommendation 18: Fair and simple tax concessions for superannuation contributions

(1) All tax concessions for superannuation contributions (including the 15% employer contributions tax rate, deductions for contributions, and rebates for contributions by low income earners and for spouses) should be replaced in a revenue neutral way by a two-tier refundable rebate paid into the fund, that is capped at a contribution level sufficient to support (along with the Age Pension) an acceptable retirement income for a typical worker.

(2) The rebate would be structured as follows:

- 100 cents per dollar contributed from any source up to $500 (indexed to movements in average fulltime earnings), to support retirement saving by low paid part time workers and replace the Low Income Superannuation Tax Offset;

- plus 20 cents per additional dollar contributed from any source up $15,000 (indexed to movements in average fulltime earnings), with no higher cap for 'catch-up' contributions.

(3) The rebate should be reduced to the extent that an individual withdraws funds from their superannuation account in the same year as they make a contribution, so that only net additions to savings attract a tax concession.

(4) The annual 'non-concessional contributions cap' should be reduced to three times the new concessional cap ($45,000), and the ability to contribute up to three years' contributions within the cap in a single year should be removed.

(5) The exception to the general prohibition on direct borrowing by super funds for limited recourse borrowing arrangements by self-managed funds should be removed.

(6) If the above changes are not adopted, the following poorly-targeted tax concessions announced in 2017 should be abolished:

- the tax deduction for employee contributions;
- the higher contributions cap for 'catch-up contributions';.
- the higher contributions cap for persons 65 or over selling their home and contributing up to an additional $300,000 per person to superannuation;
- the increase in the rebate for spouse contributions.

Revenue saved from these changes should be used to double the 15% Low Income Superannuation Tax Offset (LISTO) for individuals with income below the tax free threshold to 30%, increase the annual cap from $500 to $1,200 and convert it into a refundable tax credit.

Revenue neutral (in item (6) a saving of $1,500 million is re-allocated)

Superannuation tax concessions are expensive and inequitable

Tax concessions for superannuation contributions cost $16 billion (of the total $33 billion cost of superannuation tax concessions), mainly due to the flat 15% tax applied to employer contributions of up to $25,000 a year.

This flat tax is inequitable, saving high income-earners far more per dollar contributed by their employers than people on much lower incomes. For example, an employee earning less than $37,000 (most of whom are women) receives a tax break of zero for every dollar contributed to superannuation by her employer, while their (mostly male) colleagues earning $80,000 to $180,000 receive a tax break of 34 cents per dollar. In 2013, high income earners (top 20%, or those earning over $80,000) received more than half of the total value of superannuation tax breaks, despite being less likely to receive an Age Pension in retirement. Lower income earners (the lowest 45%, or those earning below $40,000) received only 1% of the tax savings, despite being more likely to rely on the maximum rate of Age Pension. Women received a lower proportion than men (37%).

Further, individuals can contribute up to $100,000 a year 'after tax' (such as voluntary employee contributions) to take advantage of generous tax breaks for super fund earnings discussed below.

The amounts which high income-earners can accumulate in superannuation accounts are well above what is needed for a decent living standard in retirement, and the annual contributions that attract tax breaks are well above what most people can afford to save.

There are at least five different tax breaks for superannuation contributions, depending on their source. Simplification of the system, to provide the same tax break for every dollar contributed, is long overdue.

Recent reforms to superannuation cap tax breaks for the wealthiest but leave a flawed structure intact

ACOSS strongly supported changes to the tax treatment of contributions announced by the government in the 2016 budget, which placed limits on the tax breaks available to high income-earners and removed the tax penalty that applies to contributions on behalf of wage earners below the tax free threshold. These included restoration of a tax offset for contributions (now called 'Low Income Superannuation Tax Offset' (LISTO)) for individuals earning less than $37,000 a year; a reduction in the annual 'cap' for concessional contributions from $30,000-35,000 to $25,000; extension of the existing 15% 'surtax' for contributions for high income earners to individuals earning $250,000 to $300,000, and the capping of non-concessional contributions at $100,000 a year instead of $180,000 (though fund members can still 'bring forward' three years' contributions provided their account balance is less than $1.3 million).

At the same time, some backward steps were taken, which mainly benefit high income-earners. They included a regressive new tax deduction for employee contributions, a higher contributions cap for so-called 'catch up contributions', which mainly benefit men with high incomes rather than women with low incomes; and an increase in the rebate for 'spouse contributions'.

Together, these poorly targeted new concessions cost $1.5 billion.[41]

A two-tiered rebate offers a fairer, simpler superannuation system

The reforms capped the largest tax breaks for high income-earners, but left the flawed and complex structure of tax breaks for contributions unchanged. For more than a decade we have advocated a fairer, simpler system where (instead of a flat 15% tax rate), contributions are taxed at each employee's marginal tax rate minus a 20% rebate paid into superannuation accounts. Tax would be deducted by employers from the contributions they forward to superannuation funds and the rebate would be paid by the ATO into the fund each year.

The proposed rebate would have two tiers: a 100% rebate up to a low level of annual contributions (for example $500), plus a 20% rebate up to an annual concessional contributions cap of $15,000 (instead of $25,000). The purpose of the 100% (dollar for dollar) component is to boost superannuation savings for people on very low incomes, especially women in part-time jobs.

The purpose of the 20% rebate is to support compulsory saving for retirement and encourage voluntary saving to achieve an acceptable standard of living in retirement, taking account of Age Pension entitlements. The annual contributions cap would be reduced accordingly, to a level more in keeping with the saving capacity of the majority of wage-earners.[42]

The rebate would simplify the system and make tax support more visible to encourage retirement saving. It would replace the 15% tax on employer contributions, deductions for personal contributions (which are also regressive), and other tax breaks for super contributions. Although it would not be income-tested, it would greatly improve equity. Up to the annual cap, each dollar contributed would attract the same tax support regardless of income level and the source of the contribution.[43] It would leave most fund members better off in retirement, while reducing concessions for those who least need them.

Further restrict tax concessions for large contributions

To limit tax concessions for superannuation fund earnings and benefits for people contributing large amounts to superannuation, the 'non-concessional contributions cap' should be reduced from $100,000 to three times the (now lower) concessional cap (that is, $45,000), and people would no longer be allowed to 'bring forward' three years of contributions under the cap.

---

[41] ACOSS (2016): The Government's superannuation reforms: How to ensure super works for all, not only the well-off

[42] In the short-term, the cap would be adjusted so that the proposed new rebate is revenue-neutral. The $15,000 figure is illustrative.

[43] It is consistent with the superannuation reform proposals in the Henry Report, except that the reform would not reduce employees' current disposable incomes. It would tax wages that are saved through superannuation in the hands of the fund rather than the employee (see Henry K et al, *op cit*).

So-called ‘re-contribution strategies’ in which individuals churn their wages though superannuation accounts in order to reduce tax, should be curbed by limiting concessional contributions to net annual additions to superannuation savings (contributions minus withdrawals).

General prohibition on direct borrowing should apply to self-managed funds

Self-managed superannuation funds (SMSFs), which hold a growing share of assets under management, are widely used as a general wealth management and tax avoidance tool rather than retirement saving. The use of SMSFs to manage real estate investments financed through borrowing is one example. This increases investment risk and conflicts with the purpose of superannuation, which is to support saving not borrowing. The exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds including self-managed funds should be removed. Another example is the transfer of assets such as business properties to SMSFs to avoid capital gains tax (discussed later).

6.2 Abolish counter-productive housing-related superannuation concessions

Recommendation 19: Abolish housing-related superannuation concessions

(1) The First Home Super Saver scheme should be abolished, with appropriate transitional arrangements for savings already registered with the scheme.

(2) The additional concessional contributions cap for older people who ‘downsize’ their home and reinvest the proceeds in superannuation should be removed.

Revenue: $40 million ($50 million in 2019-20)

Changes were made to the taxation of superannuation this year to support saving for first home purchase (‘the First Home Super Savers Scheme’) and encourage older people to ‘downsize’ their homes (a higher contributions cap of $300,000 per person for older people who sell their homes and contribute the proceeds to superannuation). These changes are inequitable and will not achieve their stated goals. The first is likely to inflate the cost of housing. The second will have little impact on decisions to downsize since those decisions are usually based on location and amenity rather than financial considerations. These changes should be reversed.

6.3 Taxation of superannuation after retirement

Recommendation 20: Tax superannuation fund earnings after retirement to help pay for health and aged care

(1) The 15% tax on fund earnings in the 'accumulation' phase should progressively be extended to the 'pension' phase over a five-year period from July 2018 (with a 3% increase each year).

(2) This tax should be offset by a 15% rebate (minus any imputation credits) for taxpayers over the preservation age whose income (including Age Pension, earnings and investment income) falls below that taxpayer's tax free threshold. The rebate would be calculated each year by the ATO and deposited in a superannuation fund chosen by the taxpayer.

(3) Ensure that capital gains accrued during working life that are transferred to or held in a self-managed super fund are taxed at the same rates as those held outside superannuation.

(4) Ensure that transfers from superannuation accounts to the estates of deceased fund members (apart from spouses and dependent children) are taxed at the statutory rate of 17%.

(5) Revenue collected from these measures (which would rise substantially in later years) should be earmarked (along with the Medicare Levy increase in Chapter 7 and changes to age –based tax concessions in Recommendation 21) for public expenditure on health, aged care and disability services.

Revenue: $0 ($1,500 million in 2019-20)

Older people are rightly concerned that health and aged care services may not be available to them when needed. Australia faces a choice: should essential health and aged care services be paid for through user charges or by raising funds through the tax system based on people's ability to pay?

The current tax concessions for superannuation after retirement deprive future governments of the revenue they need to guarantee these essential services for an ageing population. Once a superannuation account begins paying a pension (the so-called 'retirement phase'), the interest earnings of the fund are no longer taxed (in the 'accumulation phase' they are taxed at 15%). Together with the removal of taxes from superannuation benefits from 2007, this means that income from superannuation after retirement is completely untaxed.

As well as seriously eroding public revenue, this gives rise to tax avoidance opportunities that have little to do with saving for retirement. People can avoid paying tax on capital gains accrued through working life by retaining assets in a self-managed superannuation fund until they reach the age of 60 and the fund pays them a pension, at which point the fund's earnings, including capital gains, are tax free. Alternately, they can transfer their assets into their super fund and take advantage of the CGT rollover for small business assets and generous deductions for contributions to offset all or most of the CGT that would ordinarily be paid.

The tax free status of investment income in the 'retirement phase' allows individuals aged 55 years and over to reduce their effective tax rate to zero or 15% by recontributing or 'churning' their income though superannuation accounts.

The 17% tax on superannuation assets transferred to a deceased estate can be avoided by shifting superannuation assets from concessional to non-concessional accounts. In this way, superannuation has become an estate management tool as well as a tax avoidance tool.

The government has adopted some very welcome measures to reduce the scope for tax avoidance by high income and wealthy individuals by taking advantage of the excessively generous tax treatment of superannuation after retirement:

- A $1.6 million limit on superannuation assets attracting the zero tax rate on fund earnings in the 'pension phase' (only the top 1% of fund members have this much wealth in superannuation).
- A 15% tax on fund earnings in 'Transition to Retirement' accounts (which reduce the benefits of the re-contribution strategies discussed above).
- Removal of the 'refund' of contributions tax after the death of a fund member.

For the most part, these changes reduce post-retirement tax concessions for a wealthy minority. However, as with recent contributions tax reforms, they do not alter the flawed structure of taxation of superannuation after retirement.

The Henry Report recommended that fund earnings be taxed at the same rate in both accumulation and retirement phases, though at less than 15%.[44] Given the pressures on future budgets discussed above, and the tax free status of most superannuation benefits, there is a strong case for applying the standard 15% tax rate to fund earnings in both phases.

This would greatly improve the integrity of the income tax system for older people. It would also simplify superannuation because there would no longer be any need to operate separate 'accumulation' and 'pension' accounts for tax purposes.

[44] Henry, K (2009): *op cit.*

6.4 Taxation of other post-retirement income

Recommendation 21: Remove age-based tax concessions to help finance health and aged care services

(1) The Seniors and Pensioners Tax Offset (SAPTO) should be replaced by a tax offset for recipients of pension payments designed to exempt the pension plus private income within the pension 'free area' from income tax.

(2) The Medicare Levy exemption threshold for people over 64 years should also be equal to the relevant pension plus the 'free area'.

Revenue collected from these measures should be earmarked (along with the Medicare Levy) for public expenditure on health and aged care services along with revenue from the superannuation tax changes in Recommendation 20.

Revenue: $700 million ($700 million in 2019-20)

Together with the superannuation tax concessions discussed above, aged-based tax rebates are undermining the personal income revenue tax base. Only 16% of individuals over the age of 64 pay any income tax, despite increases in the incomes of this age cohort from employment, investments and superannuation.[45] This is not sustainable.

The Seniors and Pensioners Tax Offset (SAPTO) is a tax rebate for pensioners and individuals of pension age who have too many assets to qualify for the pension. The Treasury estimates its annual cost at $900 million.[46] In its first iteration in the 1980s its purpose was modest: to exempt individuals receiving the maximum rate of pension (with private income below the 'free area') from income tax. Over time, it was extended to retirees who were too wealthy to receive a pension and increased to the extent that single people over the pension age (64 years) with income up to $32,000 and couples with income up to $58,000 (in addition to tax-free superannuation payments) pay no income tax. These age-based tax free thresholds are 50% higher than those for people of working age, and have not been adequately justified. They are as likely to encourage people to retire early (because they can reach their retirement income target sooner) than to encourage later retirement (by increasing rewards for paid work). [47]

[45] Grattan Institute (2016): The age of entitlement: age-based tax breaks.

[46] Treasury (2017): **Tax Expenditure Statement 2016** Commonwealth of Australia, Canberra.

[47] Grattan Institute (2016): *op cit.*

7 Improving access to affordable housing

Key messages

- A new national housing and homelessness strategy should be developed as a priority in 2018. The national strategy should provide an overarching framework for the development of state and territory government strategies and the new intergovernmental agreement currently being negotiated. It should include clear targets to increase the supply of affordable housing to low income households and reduce homelessness.
- The 2018-19 Budget should deliver new capital growth funding; a long overdue increase to Rent Assistance and a new rental investment incentive.
- A new national Aboriginal and Torres Strait Islander housing strategy should be developed, with funds earmarked in the new national housing agreement to support culturally appropriate housing, including growth of the Indigenous Community Housing sector and a new remote housing funding agreement be funded with costs shared equally between the Commonwealth and State/Territory parties

7.1 Provide additional capital growth funding to underpin the new national housing and homelessness agreement

Recommendation 22: Additional capital funding to state and territory governments to enable growth in the supply of social housing for people on low incomes

Additional capital funding should be provided to state and territory governments to enable growth in the supply of social housing for people on low incomes, with a commitment of $750 million in the first year, growing to $10 billion over 10 years.

Costing: $750 million ($1,000 million in 2019-20)

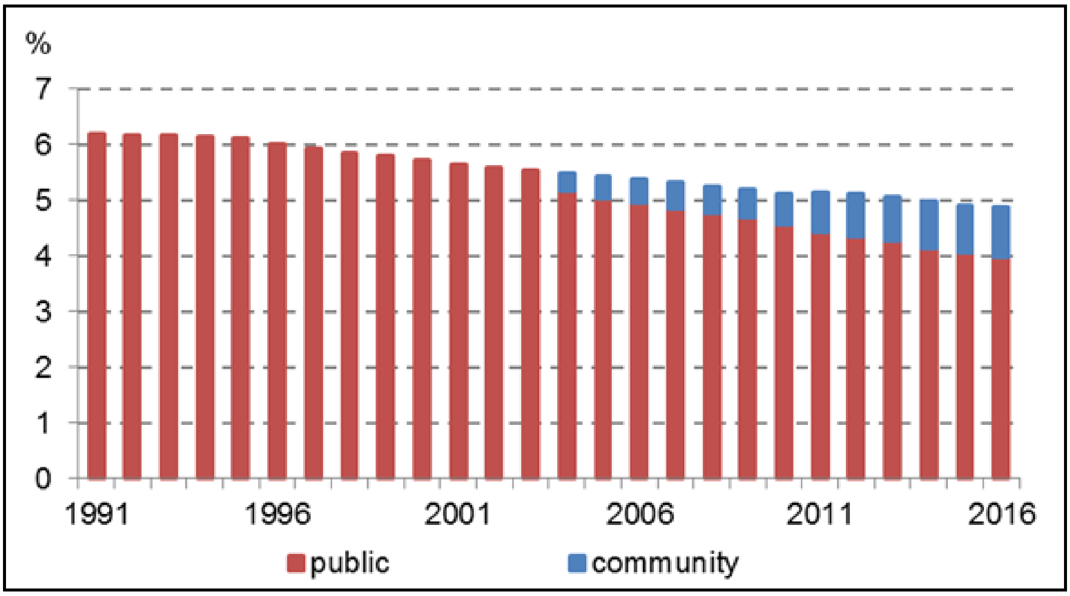
The 2017-18 Budget committed the Australian Government to maintaining current funding levels for housing and homelessness services (totalling about $1.5 billion per annum), with indexation to wages, in a new national housing and homelessness agreement.[48] ACOSS welcomed the move to more stable funding of homelessness services and indexation of funding to wage movements.

[48] http://www.budget.gov.au/2017-18/content/bp3/download/bp3_03_part_2f.pdf at page 43.

However, the government has not committed any housing growth funding despite clear evidence of a shortfall in supply of affordable housing for low income households.[49]

Social housing has declined as a share of all households due to declining investment from 6.2% in 1991 to 4.9% in 2016.[50]

Figure 9: Social housing as share of all households



Social housing waiting lists stand around 187,000 households.[51] This equates to the national shortage of 187,000 dwellings affordable for low income households renting privately[52].

The new National Housing and Homelessness Agreement (NHHA) will not be effective without a funding boost. It should be supplemented by a capital or growth fund dedicated to the development of new dwellings for people on low incomes.

---

[49] See the Affordable Housing Working Group's 2016 and 2017 reports which acknowledged the funding gap and need for additional investment.

[50] Data from the Australian Institute of Health and Welfare, the Productivity Commission's Report on Government Services (ROGS) and the Australian Bureau of Statistics.

[51] Council of Federal Financial Relations (2016): Affordable Housing Working Group: Issues Paper

[52] Hulse, K., Reynolds, M. and Yates, J (2014): Changes in the supply of affordable housing in the private rental sector for lower income households, 2006–2011, Final Report No 235, AHURI, Melbourne

7.2 Increase financial assistance to low income renters [53]

Recommendation 23: Rent Assistance should be reviewed to ensure that it best meets the needs of people who are on low incomes.

As a first step, the maximum rate should be increased from 1 July 2018 by 30% (approximately $20 per week) for low income households currently receiving the highest rate of Rent Assistance.

Costing: $775 million ($800 million in 2019-20)

Rent Assistance provides important assistance to low income residents of private housing but has failed to keep pace with steep increases in rents.

Recent data show that most (80%) Rent Assistance recipients are entitled to receive the maximum rate of payment due to their rent levels, an increasing share of recipients due to average rents paid by recipients rising faster than the Consumer Price Index against which Rent Assistance is indexed.[54] Data also show that Rent Assistance payments do not come close to achieving affordable rents for many households with 42% of households still in rental stress after receiving Rent Assistance.[55]

A series of national inquiries have recommended significant reform to Rent Assistance, including the Henry Review, the McClure Review and the National Commission of Audit. The most recent of these, the McClure Review, recommended that the levels and indexation of Rent Assistance be reviewed to 'ensure it appropriately reflects the costs of rental housing to tenants'. The Productivity Commission is also examining the social housing sector and the role of Rent Assistance in the context of its current inquiry into competition in human services. A redesign of Rent Assistance is needed, and this should be informed by meaningful engagement with key stakeholders about reform objectives and options. A dedicated review should be undertaken as a matter of high priority in 2018. In the meantime, the maximum rate of Rent Assistance should be increased by 30% to provide immediate relief to renters on low incomes.

In projecting future expenditure on Rent Assistance, the Commonwealth should also take account of the impacts of public housing transfers, with governments having agreed on a target of 35% of social housing to be controlled by community housing providers (CHPs). If this target is met in the next 4 years, it will increase the cost of Rent Assistance over the forward estimates by an estimated $500

[53] Recommendation Calculated using Stinmod and indexed to growth in CRA expenditure (projected to be more than 3%), based on recent trends. See DSS (2016): *op.cit.*

[54] See Department of Social Services (2017): Annual Report 2016-17

[55] *Ibid.*

million.[56] Such transfers will enable community housing providers to use their improved revenue streams to enhance tenant and asset outcomes from the social housing system.

7.3 Introduce a new affordable rental housing investment incentive

Recommendation 24: A new rental incentive should be designed to encourage investment in new rental stock for low income households by bridging the finance gap

A two-tier rental housing investment incentive should be introduced for the construction of new dwellings. This would be paid at a base rate to investors in new dwellings below a certain value (Tier 1) and at a substantially higher rate (either as a tax offset or direct payment) for the construction of new dwellings used to provide affordable housing, where rents are held at least 20% below market rents (Tier 2).

Costing: To be funded by part of the savings from reform of negative gearing (see Chapter 5)

As part of the 2017–18 Budget, the government announced the establishment of a National Housing Finance and Investment Corporation (NHFIC) which will oversee a Bond Aggregator and a Housing Infrastructure Fund. The Bond Aggregator is intended to provide low-cost, long-term credit for community housing providers. The Housing Infrastructure Facility will help to finance housing-related infrastructure investments by State and Local Governments and CHPs to speed up housing supply. The announcement of a Commonwealth Guarantee for bonds issues (in November 2017) will assist in providing market stability and help reduce the cost of funds. These are all welcome developments and we commend the government on these initiatives.

The remaining piece of the funding puzzle is an additional subsidy to meet the investment finance gap for affordable rental housing. The design of such a subsidy should be a priority for 2018. It should seek to replace and build on the strengths of the National Rental Affordability Scheme (whilst addressing weaknesses in implementation) and provide a stable incentive for investors to build new dwellings for low income households at below-market rent.[57]

Current tax concessions are used primarily for households investing in existing private rental dwellings, driving up prices for prospective home buyers trying to enter the market and doing little to increase the number of affordable homes. With current signs of a softening of the housing market, a new rental incentive could play a role in smoothing the market transition by stimulating investment at the affordable end of the rental market with industry and economic benefits.

We propose that part of the revenue saved through our proposed reforms to negative gearing be devoted to a two-tier rental housing investment incentive for the construction of new dwellings. This

[56] Calculation based on the transfer of a further 80,000 dwellings, using cost estimates in Pawson, H., Milligan, V., Wiesel, I. and Hulse, K. (2013), 'Public housing transfers: past, present and prospective', Final Report no. 215 AHURI Melbourne in Tables 7 and 8.

[57] Australian Treasury (2017): Consultation paper, national housing finance and investment corporation. p. 21-22

would be paid at a base rate to investors in new dwellings below a certain value, and at a substantially higher rate for the construction of new dwellings used to provide affordable housing. This incentive would be available for a maximum of ten years following construction. Consideration should be given to replacing the existing 2.5% 'capital works allowance' for dwellings built after 1985 (which is poorly designed and applies for up to 40 years after construction) with the new incentive, which would increase revenue savings from the reform.

The impact of the incentive on rental housing investment, especially affordable housing, should be reviewed by an independent body within three years of its implementation (see recommendation 27).

7.4 Develop a new national Aboriginal and Torres Strait Islander housing strategy which encompasses urban, regional and remote areas

Recommendation 25: Develop a new national Aboriginal and Torres Strait Islander housing strategy

A new strategy should be developed with supplementary funds earmarked in the National Housing and Homelessness Agreement, to support culturally appropriate housing, including growth of the Indigenous Community Housing sector

Costing: $150 million ($155 million in 2019-20)

Since 2009, there has been no dedicated Commonwealth funding for Aboriginal and Torres Strait Islander housing supply outside of remote areas and services have increasingly been mainstreamed, in a context of little or no overall growth. This is despite the benefits of culturally appropriate housing for Aboriginal people around the country and the large Aboriginal populations in urban centres.

A new national Aboriginal and Torres Strait Islander housing strategy should be developed with a 10% boost to funding under the National Housing and Homelessness Agreement earmarked to build capacity for Indigenous Community Housing Organisations (ICHOs). This should support the viability of ICHOs as an alternative to mainstream providers and support their capacity to take advantage of new financing options such as the Bond Aggregator.

The Strategy should provide an overarching framework for an integrated whole-of-jurisdiction approach to Aboriginal and Torres Strait Islander housing. It should cover urban, rural, regional and remote housing, with funding for remote housing funded under a new remote housing agreement, as outlined below.

Recommendation 26: Develop a new Aboriginal and Torres Strait Islander remote housing funding agreement

A new remote housing funding agreement should be negotiated between the Commonwealth and State and Territory governments, with finding shared equally between the parties.

Costing: $450 million [$450 million in 2019-20]

Note: Total funding would be $900 million per annum.

Commonwealth government-dedicated funding for remote Aboriginal and Torres Strait Islander housing is currently provided under the National Partnership on Remote Indigenous Housing (NPRH), a two year $776 million agreement which expires on 30 June 2018.[58] The agreement funds 4 jurisdictions (WA, SA, NT and Qld), following the exit of other states from the National Partnership Agreement on Remote Indigenous Housing (NPARIH) and is limited to housing in remote areas. A review of the agreement was completed in October 2017. The Final Report found that some good progress had been made, including in reducing overcrowding, but that more needed to be done.[59] Specifically, it recommended that investment in construction of an additional 5500 dwellings by 2028 was needed in remote areas across the 4 jurisdictions to meet demand, in addition to recurrent funding for maintenance, with costs shared equally between the Commonwealth and the States.[60]

In their supplementary report, Nous Group found that remote Aboriginal and Torres Strait Islander housing 'faces a significant and unavoidable revenue-cost shortfall' finding that 'on average, 84 per cent of the costs of ongoing property maintenance of housing stock are not covered by rental income'.[61] Importantly it notes that this shortfall is largely (80%) due to the higher costs of remote housing, rather than lower rental incomes.[62] The Nous Report highlights the clear need for ongoing government subsidies for housing management.

Given this demonstrable need, the Commonwealth must provide ongoing funds in the 2018-19 Budget. The costs of meeting the supply shortfall (5500 new dwellings) and performing necessary refurbishments and property and tenancy management have been estimated conservatively as $9

[58] $428 million in 2016-17 and $345 million in 2017-18. See http://www.federalfinancialrelations.gov.au/content/npa/housing/national-partnership/NP_on_Remote_Housing.pdf

[59] Remote Housing Review (2017): A Review of the National Partnership Agreement on Remote Indigenous Housing and the Remote Housing Strategy (2008-2018)

[60] *Ibid.*

[61] Nous Group (2017): **Efficient system costs of remote Indigenous housing** 4 July 2017.

[62] *Ibid.*

billion over 10 years.[63] We propose a 10 year commitment to meet these costs, shared equally with the states and territories.

7.5 Fund housing and homelessness research and evaluation

Recommendation 27: An independent body to monitor and evaluate housing and homelessness impacts

Earmark 2% of funding under the new national agreement to resource an independent body to monitor and evaluate the impacts of housing and homelessness funding over time.

Costing: $30 million ($31 million in 2019-20)

Stable, long term funding for research and evaluation should be secured as a proportion of the new long term housing and homelessness agreement to enable the collection of baseline data and ongoing monitoring of impacts. These funds should be earmarked as 2% of total funds, noting the vulnerability of previous research funds to cuts.

An expert group should be established to develop a new set of performance indicators and nationally consistent data definitions and standards across the states and territories. This would enable improved accountability and transparency in terms of how funding is spent on homelessness services, maintaining, operating and upgrading existing social housing, additions to social housing (net of demolitions) and any other relevant purposes. Noting that the machinery of government around the current housing agreement was dismantled in 2013, including the COAG Reform Council which was responsible for assessing performance, another independent body should be given this task and resourced adequately.

7.6 Homelessness funding should be clearly earmarked in the new housing and homelessness agreement

Recommendation 28: All homelessness services funding should be earmarked as such in the new national housing and homelessness agreement

Costing: Revenue neutral

The 2017-18 Budget indicates that funding previously provided under the NPAH (approximately $115 million per annum) will be earmarked and subject to a matching requirement, but the same provisions do not seem to apply to the funds previously provided under the National Affordable

[63] This is comprised of: $6 billion for 10,000 additional houses, $0.3 billion for refurbishments, and $2.8 billion for property and tenancy management but excludes land servicing, essential services infrastructure, and access roads. Estimates by Michael Dillon, Tactics versus Strategy in Indigenous Housing, 18 January 2018

Housing Agreement (approximately $250 million per annum). The aggregate funding provided by both funding streams should both be earmarked within the new agreement.

8 Strengthen preventive health care and public health services and the revenue base needed to pay for them

Key Messages

+ Health is one of the largest areas of expenditure growth in the Commonwealth budget, largely due to the costs associated with preventable chronic diseases, population ageing and health technology and the consequential increased spending on health and other services, including aged care, making preventive health spending more important than ever.
+ A litmus test for the government's commitment to essential health care services will be this year's renegotiation of the National Health Care Agreements between the Commonwealth and States and Territories, in the wake of the 2014 budget decision to cut the indexation of this funding beyond 2020 (reducing future funding by $14 billion a year).
+ Alongside basic, effective, community based health services, ACOSS advocates strongly for reform to ensure that low income households have access to affordable dental services.
+ Despite being a significant component of health expenditure, the Private Health Insurance (PHI) rebate has failed in its promise to take pressure off public hospitals by increasing use of private health insurance. Abolition of the PHI rebate could save a net $3.5 billion, with total savings of $6 billion saving offset by the anticipated increase in demand for public hospital services should the rebate be abolished.
+ The Extended Medicare Safety Net should be abolished due to its role in inflating prices, with its savings redirected to public hospitals and community based services.
+ The public revenue base should be strengthened to help finance the essential health, aged care, and disability services that will grow in cost as the population ages and standards of care improve. This is a fairer and more cost-effective way to fund these essential services than user charges or private insurance.
+ In addition to the 0.5% increase in the Medicare Levy announced in the 2017 budget, the definition of income used for Medicare Levy purposes should be tightened so that people can no longer avoid paying by using common tax shelters such as private trusts, negative gearing and salary sacrifice.
+ Alcohol taxes should be reformed and a 'sugar tax' be introduced on certain sweetened drinks to address social, health and economic costs of over-consumption of sugar and binge drinking. While such taxes on consumption are generally regressive, they would improve the health and wellbeing of low-income families and children. Revenues collected should be earmarked for chronically underfunded programs that help prevent and treat the social and health impacts associated with these products, especially programs that target and benefit low-income households.

8.1 Invest in promotion, prevention and oral health programs

Recommendation 29: Ongoing investment in preventive health mechanisms

Investment in preventive health programs, inclusive of communicable and non-communicable conditions, should be increased through savings derived from ineffective health expenditure, maintained on the basis of population growth and effectiveness of programs.

Costing: $150 million ($154 million in 2019-20)

Too much of our public health spend is directed towards tertiary or hospital services, with inadequate investment in preventive health initiatives. We fail to prevent a whole range of conditions (namely chronic disease, but also preventable communicable diseases) that significantly inhibit people's health and wellbeing while also placing an unsustainable burden on our health system. Stronger investment in preventive health care and supporting people to adopt healthier lifestyles would save significant future health care costs.[64] For example, the Victorian government estimates that savings of over $1 billion a year could be made by better managing chronic illness to avoid hospital visits.

Recommendation 30: Increase investment in affordable, accessible dental care for children and adults

We need to ensure access to basic, preventive dental care through the public health system for children and adults, funded through the redirection of savings from the abolition of the Private Health Insurance rebate.

Costing: $1,200 million ($1,230 million in 2019-20)

The Australian Institute of Health and Welfare found that individuals already pay 60% of the total spend on dental care through out-of-pocket costs.[65] For people on low incomes, this is unaffordable and many go without much needed dental treatment. Former Minister Ley has acknowledged that 63,000 people are hospitalised each year for preventable and treatable oral health conditions.[66] The lack of public dental care not only incurs a cost in our broader health system; it impacts on people's ability to live their lives, including to eat well, work and be engaged in their communities.

---

[64] For a strong rationale for preventive services, see for example Australian Government (2010): Taking preventative action: a response to 'Australia: the healthiest country by 2020', Commonwealth of Australia, Canberra.

[65] AIHW: Chrisopoulos S, Harford JE & Ellershaw A (2016): Oral health and dental care in Australia: key facts and figures 2015 Cat. no. DEN 229. Canberra: AIHW. Available: p.vii

[66] Ley, S (2016): Turnbull Government to double public dental investment Media Release, 23 April.

8.2 Redirect poorly targeted health expenditure

Recommendation 31: Remove the Private Health Insurance Rebate

The Private Health Insurance Rebate should be removed, with half the savings redirected to public hospitals, community based health services, and preventive health and public dental health services for people on low incomes.

Saving: $3,300 million ($3,350 million in 2019-20)

Despite being a significant component of health expenditure, the PHI rebate has failed in its promise to take pressure off public hospitals by increasing use of private health insurance. Abolition of the PHI rebate could save a net $3.5 billion[67], with total savings of $6 billion saving offset by the anticipated increase in demand for public hospital services should the rebate be abolished.[68] Savings from the abolition of the PHI rebate should be redirected into the public health system with full transparency as to how these savings are spent.

Recommendation 32: Abolish the Extended Medicare Safety Net

The Extended Medicare Safety Net should be abolished due to its role in inflating prices, with savings redirected to public hospitals and community based services.

Saving: $430 million ($440 million in 2019-20)

ACOSS remains concerned by the lack of attention being paid to rising out-of-pocket costs for healthcare consumers and the impact this has on access to services for people on low incomes who are more likely to experience poor health. An independent review of the Extended Medicare Safety Net (EMSN)[69] showed that less than 4 per cent of EMSN benefits go to the most socioeconomically disadvantaged 20 per cent of the population.[70] This is because they struggle to afford the gap fees that enable them to reach the EMSN thresholds. While EMSN benefit caps were set on all consultations as part of the 2012-13 budget, ACOSS is concerned by the lack of public data to assess

---

[67] Commonwealth of Australia (2016): Budget Paper 1 pp: 5-12.

[68] Grattan Institute (2013): Balancing Budgets: tough choices we need

[69] The EMSN provides an additional rebate for people who incur out-of-pocket costs for Medicare eligible out-of-hospital services. Once the relevant annual threshold of out-of-pocket costs has been met, Medicare will pay for 80% of any future out-of-pocket costs for out-of-hospital Medicare services for the remainder of the calendar year. From 1 January 2017 the annual EMSN thresholds are:

- $656.30 for Commonwealth concession cardholders
- $2,056.30 for all other singles and families [Department of Health (2016), Medicare Safety Net Arrangements, 1 January 2017, Australian Government).

[70] CHERE (2011): **Extended Medicare Safety Net Review of Capping Arrangements** Centre for Health Economics Research and Evaluation, University of Technology Sydney.

whether this has reduced the costs (or reduced growth in costs) of specialist and allied health services and led to a more equitable distribution of EMSN benefits across the income distribution.

More fundamental reform is needed including greater transparency for consumers on the outpatient fees charged by specialists and out-of-pocket costs to patients.

8.3 Strengthen revenue to fund health, disability and aged care services

Recommendation 33: Strengthen the Medicare Levy

(1) From 1 July 2019, the income definition for the Medicare Levy should be broadened from 'taxable income' to 'Medicare Levy Surcharge income' to prevent people from avoiding the Levy by using tax shelters such as private trusts, negative gearing or salary sacrifice arrangements.

(2) Revenue raised from this change ($1,200 million a year) should either be used to fund the NDIS and essential health and aged care services, or to raise the Medicare Levy exemption thresholds for low-income individuals and families.

Revenue: $0 million ($1,200 million in 2019-20)

The Medicare Levy has served Australia well as a funding source for essential health care services (and recently disability services) even though it does not cover their full cost. While we do not generally advocate the hypothecation of public revenue to specific programs, there is a case for earmarking (not strictly hypothecating) taxes for universal essential services such as these whose cost is projected to grow strongly as the population ages. This gives the public confidence that these universal essential services will be properly funded, and holds governments politically accountable to do so.[71]

In last year's budget, the government proposed to increase the Medicare Levy by 0.5% to help finance the NDIS. This is the right direction for reform, but if future governments are to rely more on this source of revenue for health and disability services, the Levy needs to be redesigned.[72] The objectives of this redesign should be to improve equity, simplify the system, and strengthen this revenue base by reducing tax avoidance opportunities.

[71] A similar example was the establishment of a 'National Welfare Fund' to pay for major improvements in social security announced near the end of the Second World War. Although its use was not legally restricted to social security purposes, the fund remained in place to support social security programs until the 1980s.

[72] For a more detailed discussion see ACOSS (2017): Strengthening the Medicare Levy to secure the future of the NDIS and other essential universal services

ACOSS has raised four options for reform:

1. Broadening the income definition for the Levy to 'Medicare Levy Surcharge income' to curb tax avoidance, as recommended above;
2. Integrating the Medicare Levy and Surcharge into a single Levy with no exemption for private health insurance holders (so that families earning more than $180,000, and singles without children earning more than $90,000 would pay an additional 1.0-1.5% of their income regardless of whether they hold private health insurance, raising an estimated $4 billion a year);[73]
3. Replacing the low-income exemption thresholds (including the higher thresholds for Seniors discussed in Chapter 6) and family income tests with a three-tier personal marginal rate structure (zero, a standard rate, and a 'high-income' rate to replace the Surcharge); or
4. Calculating the Levy as a fixed proportion of personal income tax paid.

As well as improving equity, these changes would greatly simplify the Medicare Levy, improve transparency, and improve rewards from paid work for second-earners (who are mainly women) in dual income families.[74]

As a first step, in this budget we propose that, in addition to the proposed 0.5% increase in the Medicare Levy announced in last year's budget, the income definition for the Medicare Levy be broadened from 'taxable income' to 'Medicare Levy Surcharge income' (MLS income). MLS income brings into the tax base income not currently taxed from private trusts and negative gearing or salary sacrifice arrangements. This broader income definition is already in place to prevent people with higher incomes from using tax shelters to avoid the surcharge. We would extend the same principle to the Medicare Levy itself.

---

[73] Removing the exemption is unlikely to have a significant impact on private health insurance cover among these households since they are not income-constrained. In any event, a reduction in private health insurance cover is likely to have a modest impact on the cost to governments of public health care, and the savings could be devoted to raising direct health expenditures such as grants to the States and Territories for public health services.

[74] The latter goal would be achieved by replacing the existing family-based income test for exemptions from the Levy with separate tax free thresholds for primary and secondary earners. See ACOSS (2017): *ibid*.

Recommendation 34: Introduce a 'sugar tax' on sweetened drinks

(3) As part of a comprehensive strategy to reduce sugar consumption (especially among children) where this is harmful to health, and to better incorporate related health and social costs into its price; from 1 July 2019 a two-tier volumetric 'sugar tax' should be introduced for water-based drinks with added sugar (excluding pure fruit juices) at rates of 30 cents per litre for drinks with 5-8 grams of added sugar per 100ml, and 40 cents per litre for those with over 8 grams of added sugar per 100ml.

(4) Revenue from this excise should be earmarked for expenditure on preventive health care services, health promotion schemes focussing on healthy eating and fitness, fitness programs for children and young people, and a fresh food transport subsidy for remote areas.

Revenue: $0 million ($500 million in 2019-20)

Almost two thirds of Australian residents are overweight or obese; one of the highest rates in the OECD. Sharp increases in the incidence of overweight and obesity (especially among children) over the last few decades are associated with growth in chronic illness such as diabetes.[75] Excessive sugar consumption is a major reason for this. It is also very harmful to teeth, especially for children.

We support a tax on water-based drinks with added sugar as a first step towards reducing excessive sugar consumption since these often have a very high sugar content and have no nutritional value. This should be part of a wider strategy including regulatory reform (to restrict advertising targeting children, improve the transparency of labelling of food and beverages, and restrict the financing of sporting and similar activities by producers), and health promotion campaigns.[76]

We propose a volume-based 'sugar tax' on water-based drinks with added sugar (not including pure fruit juices) along the lines of the proposed British tax on sugary drinks. The British tax (to commence in 2018) will apply to drinks with sugar content above 5g/100ml and at a higher rate of up to 24p/litre for drinks with over 8g of sugar per 100ml. It is estimated to raise £520m a year, earmarked for preventive health and fitness programs for children. British soft drink manufacturers have already announced they intend to reduce the sugar content of their products to bring them under

---

[39] Combined rates of overweight and obesity were 63% in 2014, up from 56% in 1995 and 61% in 2007-8 (Australian Institute of Health and Welfare (2017), Healthy Communities: Overweight and obesity rates across Australia, 2014–15.) There is no national strategy to prevent increases in obesity and no national authority to lead this work since the Australian National Preventive Health Agency was abolished in 2014. [PHAA (2016), Policy-at-a-glance – Prevention and Management of Overweight and Obesity in Australia Policy]

[76] See Obesity Policy Coalition: http://www.opc.org.au/downloads/positionpapers/policy-brief-reduce-sugary-drinks.pdf and http://www.opc.org.au/downloads/positionpapers/policy-brief-australian-tax-sugar-sweetened-beverages.pdf

the thresholds for higher taxation.[77] Revenue from the sugar tax should be earmarked for preventive health and health promotion programs, including healthy eating and sports programs in schools, and a public subsidy for the transport of fresh food to remote areas. In remote Aboriginal and Torres Strait Islander communities a fresh food transport subsidy would be a direct, equitable and cost effective way to improve health.[78]

Recommendation 35: Reform alcohol excise so that tax is levied consistently on the basis of alcohol content

(1) As part of a comprehensive strategy to reduce alcohol consumption where this is harmful to health, and to better incorporate related health and social costs into its price, from 1 July 2019 the WET and WET Rebate should be abolished and wine should be taxed at a uniform rate of $56 per litre of alcohol content and ciders at $33 per litre.

(2) The revenue from this excise should be earmarked for expenditure on preventive health care services, including prevention of foetal alcohol syndrome.

Revenue: $0 ($2,300 million in 2019-20)

Overall alcohol consumption has fallen in Australia. However, there has been persistent growth in consumption of wine, and growing concern about the impact of cheaper wines on people who over-consume them, their families and communities.

The tax system treats different forms of alcohol inconsistently, in particular by taxing cheap wines at lower rates than other drinks with less alcohol content such as beer.

The Wine Equalisation Tax (WET) and WET Rebate should be abolished and wine and ciders taxed at (two) uniform rates according to alcohol volumes that lies between the tax rate for brewed full strength beer and spirits.[79]

These reforms should be part of a wider strategy to reduce harmful consumption of alcohol including regulatory reform (especially regarding advertising and financing of sporting and similar activities by producers) and health promotion campaigns.

---

[77] Mexico introduced a 10% tax on drinks with high sugar content in 2014. After a year, sales of sugary drinks dropped by up to 12%. [WHO (2015): **Using price policies to promote healthier diets**.]

[78] This could be modelled on a Canadian program, 'Nutrition North America', which provides a transport subsidy to food providers in remote, isolated regions. Funding is based on the total weight of fresh food products shipped to eligible communities, who must then pass on the savings to consumers. The program receives $CA60 million per year.

[79] According to modelling by ACIL-Allen Consulting for FARE (ACIL-Allen Consulting 2015, 'Alcohol tax reform economic modelling'); a common volumetric tax rate for wine at $56.46 (half way between the full strength draught beer rate of $33.16 and the spirits rate of $79.77) would raise $2.3B in annual revenue and reduce overall alcohol consumption by 7.1% (mainly by raising the cost of cask wines). The Henry Report also proposed a uniform volumetric tax.

9 Improving access and affordability of essential human services

Key messages

+ The funding climate for essential and innovative community services since the 2014-15 budget has been one of chronic and prolonged uncertainty. The combination of cuts, followed by partial reversals or freezes or the repackaging of funding allocations has wrought havoc in critical areas of social infrastructure. Indexation has not been adequate to account for rises in wage costs.
+ In 2018, the Government should undertake a national community services needs mapping exercise to inform future funding. To ensure longer term sustainability, community sector funding should be linked to wage movements.
+ A social innovation framework should be developed to support innovation in the community services sector.
+ Deductible Gift Recipient eligibility should be extended from 1 July 2019 to all charities whose purpose is altruistic and for the public benefit, and to benefit (directly or indirectly) people whose disadvantage prevents them from meeting their needs.
+ Proposed new curbs on public advocacy by charities and other community organisations should be abandoned in the interests of open, informed debate on public policies affecting people facing disadvantage and threats to the natural environment.
+ Access to high quality early childhood education and care is critical for all children, regardless of their parent’s workforce status. Funding should be re-targeted to improve access for families on low incomes.
+ ACOSS strongly supports the 2016 Redfern Statement and urges the Australian Government to work with Aboriginal and Torres Strait Islander national organisations and leadership to develop policy and budget measures across key areas in the statement including engagement, health, justice, violence prevention, disability, children and families.

9.1 Strengthen community service resourcing and representation

Recommendation 36: Develop a new community services funding program based on assessed community needs and indexed to wages

(a) As a first step, restore community service funding levels, including through the Indigenous Advancement Strategy to pre-2014 levels: Provision for restored funding levels to pre-2014-15 Federal Budget Levels, commencing from 1 July 2019, in order to fund recommendations arising from a comprehensive and transparent mapping of service needs in 2018. This should include funding for the National Congress of Australia's First Peoples and other peak or representative bodies advocating on behalf of minority or disadvantaged groups.

Costing: $0 ($1,513 million in 2019-20)

(b) Index community services funding to wage movements: Ensure funding for the delivery of community services is tied to the 2017 MYEFO Wage Price Index.

Costing: $332 million ($341 million in 2019-20)

(c) Ensure direct representation of community services in mapping service needs and service system reforms, including competition.

Costing: Revenue neutral

The funding climate for essential and innovative community services since the 2014-15 budget has been one of chronic and prolonged uncertainty. The combination of cuts, followed by partial reversals or freezes or the 'repackaging' of funding allocations has wrought havoc in critical areas of social infrastructure. Indexation has not been adequate to account for rises in wage costs. Providers cannot plan for quality delivery and clarify service models let alone innovate, when community sector workers are uncertain about their futures. While restoration of funding cuts for services and sector development cannot undo the damage felt by people who have been unable to access essential services, staff who have lost their jobs or organisations with long-established relationships and trust in communities with pronounced needs, it can mark the beginning of a more certain future.

The Federal Budget should make provision for, at a minimum, a restoration of the pre-existing funding levels for community services, commencing from 1 July 2019, in order to fund recommendations arising from a comprehensive and transparent mapping of service needs in 2018.

Recommendation 37: Develop a social innovation framework and funding model

Fund a budget allocation to allow people using services, service providers, funding bodies and the research community to work with Government to develop a social innovation framework in line with the Australian Government's National Innovation and Science agenda.

Costing: $3 million ($0 in 2019-20)

The Australian government's National Innovation and Science is intended to support businesses, industry and research partners to take risks and to commercialise promising discoveries. These are important national objectives but ignore the importance of fostering innovation in the delivery of social services despite the desperate need to generate more effective responses to increasingly complex and interdependent needs that do not fit neatly into single funding silos. They instead require a more holistic approach to problems and new ways of collaborating and approaching the 'co-design' challenge across people using services, service providers, funding bodies and the research community.

ACOSS seeks a budget allocation of $3 million in 2018-19 so that these groups can work with government to develop a social innovation framework. A genuine and synergistic dialogue is required to:

- discuss new service models or ways of working that can drive improved outcomes for individuals, families and communities in need;
- develop a shared understanding of social and public value and the savings which can be generated through greater investment in effective early intervention and prevention;
- determine priority areas and additional expenditure required to support community service organisations of different sizes to engage in innovation, evaluation and monitoring;
- analyse what social innovations have been enabled by, or could be enabled by, investment from the Future Fund and social outcome funds developed internationally; and
- consider what alternative funding models might look like and how we build the capacity of the community sector and other stakeholders to drive the changes demanded by intractable social problems in a way that is more responsive to emerging needs and which creates new opportunities to build a more equal and sustainable future.

Recommendation 38: Retain and extend gift deductibility for charities not engaged in direct service provision

(1) Without restricting the existing scope of gift deductable-recipient status, this should extend from 1 July 2019 to all charities whose purpose is altruistic and for the public benefit, and to benefit (directly or indirectly) people whose disadvantage prevents them from meeting their needs.

(2) Eligibility for charitable and gift deductable status should be based on charitable purposes rather than activities, regardless of whether those purposes are met by direct service provision, environmental remediation, public policy development or non-partisan advocacy.

(3) The gift deductable recipient status of eligible organisations listed in the registers of environmental, overseas aid, harm prevention and cultural organisations should be retained.

Cost: $0 ($50 million in 2019-20)

The tax treatment of charitable organisations is inequitable and inconsistent. While some charities including Public Benevolent Institutions attract gift deductibility, others whose purpose is similar do not. For example, charities which advocate policies to government to reduce homelessness do not generally have gift deductibility while those that provide services directly to homeless people do. Both serve an important charitable purpose: shelter for homeless people.

Gift deductibility should extend to all charities whose main purpose is to assist people whose disadvantage prevents them from meeting their needs, whether they do so through direct service provision, policy development, their peak body function or public advocacy.

The government should not proceed with current proposals to restrict or tightly regulate the public advocacy activities of charities and other non party-political organisations benefiting the environment and the community. These include detailed and potentially costly reporting requirements for foreign donations, and suggestions that the Australian Charities and Not for Profits Commission (ACNC) should monitor and regulate the activities of charities in pursuit of their charitable purposes.

9.2 Improve access to early childhood education and care for families on low incomes

Recommendation 39: Redirect savings from tightening of income test and caps for higher income households to improve access for children in low income families

(1) Replace the three-tiered subsidy with a simpler and more sustainable two-tiered model (a linear taper), with a maximum subsidy of 85% for families on less than $65,700 tapering to a base subsidy of 30% for households on more than $250,000 per annum.

(2) Reduce the subsidy cap for higher income households from $10,000 to $7,500 per annum, and resume indexation of the subsidy cap.

(3) Provide a minimum of two full days of subsidised early childhood education and care per week for all families, regardless of activity. Activity requirements should apply only to families seeking care for more than two days per week.

(4) Establish an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net, which provides children with 22.5 hours or three sessions of ECEC per week and enables the provision of playgroups, mobile services and outside school hours care in regional and remote communities.

Costing: Revenue neutral

A package of early childhood education and care reforms formed a centrepiece of the 2015-16 budget and a revised package of reforms will come into effect on 2 July 2018[80,81,82].

Under the current system, families are entitled to a minimum of 24 hours per week of subsidised care and more than 24 hours if they are engaging in at least 15 hours per week of approved activities. Under the new rules, as noted above, families engaging in fewer than 4 hours a week of approved activity will only be eligible for just 12 hours a week of subsidised care, halving their entitlement.

ACOSS recommends that all families should be able to access a minimum of two days of early childhood education and care, regardless of activity level to ensure children in families without paid

[80] The Productivity Commission estimated the cost of removing the activity test altogether as more than $1 billion per year, while the cost of removing the test for those on Parenting Payment and increasing the minimum weekly entitlement to 20 hours per week was estimated at approximately $250 million per annum. See Productivity Commission (2014): Childcare and Early Childhood Learning, Inquiry Report Volume 2, No. 73, 2014 at Figure 16.15.

[81] Estimated cost of $100 million per annum

[82] The new system is due to start on 2 July 2018. It is proposed that any additional costs not met by the changes to income tests and subsidy rates would be covered through the redirection of savings committed through previous cuts to the package from the 2015 MYEFO as well as the 12-month delay in implementation of the scheme. Detailed modelling is required to assess the net impact of the changes.

work have access to sufficient quality care. Longer-term, we recommend that this form one of a number of community service guarantees as part of a broader tax and federation reform agenda.[83]

ACOSS broadly supported the Productivity Commission's model for structural reform of the child care system which recommended that families on low incomes receive a higher subsidy (85-90% of benchmarked costs for families under approximately $60,000) with a linear taper down to a universal base subsidy of 20% -30% for higher income families (above $250,000).[84] The government's revised child care package adopts an 85% subsidy rate or families on less than $65,000 per year, but then adopts a two-step taper: to a 50% subsidy for families on incomes of $170,000-$250,000, then down to 20% for families on more than $340,000 per annum. The government's package also increases the fee cap for high income families, from $7,500 to $10,000 per annum. The relative generosity at the higher end has increased the overall costs of the package and has also made for a more complex system.

ACOSS believes that, beyond a universal base payment, the level of childcare subsidy should be appropriately targeted to those who struggle with childcare costs. We recommend a maximum subsidy of 85% for families on low and moderate incomes (under $65,000) but that the two-step taper be replaced by a linear taper to a base rate of 30% for families on $250,000 per annum or above.[85] We also recommend the subsidy cap for higher income families be maintained at its current level ($7,500) and indexed,[86] rather than increasing it to $10,000 as proposed in the government's package. Affected families should be able to adjust their subsidy rate to ensure they maintain access to subsidy all year if they are likely to hit the cap.

These changes would ensure that resources are available to address the gaps in the child care system for low income and developmentally vulnerable children.

We support measures that ensure that services currently funded under the Budget Based Funding program, including Aboriginal and Torres Strait Islander programs, will not be required to transition to rely only on Child Care Subsidy and Additional Child Care Subsidy funding. It is important that programs reaching children in regional and remote areas (including playgroups, mobile services and outside school hours care[87]) have a sustainable, stable and equitable funding model that reflects higher delivery costs; have an integrated funded formula that provides services with the flexibility to

---

[83] See The COSS Network (2015), 'Fit for purpose: a federation that guarantees the services people need'. Available: http://acoss.wpengine.com/wp-content/uploads/2015/10/COSS-federation-framework_FINAL.pdf.

[84] The Productivity Commission's Final Report recommended 20% down from 30% in its Draft Report.

[85] The Productivity Commission estimated the cost of tapering to a base rate of 30% (instead of 20%) at approximately $185 million per annum, compared to its alternative model, but these costs would be offset by the removal of the proposed mid-tier 50% subsidy rate for families on $170,000-$250,000. See Productivity Commission (2014): *Op Cit* at Figure 16.15.

[86] Indexation of the cap was frozen in 2011 for 3 years. Indexation should be to movements in child care prices.

[87] Secretariat of National Aboriginal and Islander Child Care (2016): The Jobs for Families Child Care Package: Unintended consequences and policy alternatives for Aboriginal and Torres Strait Islander children, SNAICC, February.

respond to child and family needs where a user pays model is insufficient; and provide top up funding for operational costs to redress services' income gap from the mainstream subsidy and fees based on 3-year applications.

9.3 Improve access to services for Aboriginal and Torres Strait Islander people

The continued reliance on top-down approaches ensure key socio-economic indicators remain sorely unchanged for Aboriginal and Torres Strait Islander people in Australia. Governments must look to local, community driven solutions if they are serious about improving outcomes for Aboriginal and Torres Strait Islander people. Building capacity in communities is critical to improve the quality of life and wellbeing.

ACOSS strongly supports the 'Uluru Statement from the Heart' and rejects the government's refusal to engage with Aboriginal and Torres Strait Islander people in their united plea to have a voice to parliament. The ongoing refusal of this parliament and others before this to engage with a consultative group on issues that affect Aboriginal and Torres Strait Islander people across this country is blocking effective dialogue with Aboriginal and Torres Strait Islander communities.

ACOSS also supports the 2016 'Redfern Statement' and urges the government to work with Aboriginal and Torres Strait Islander national organisations and leadership to develop policy and budget measures across key areas in the statement including engagement, health, justice, violence prevention, disability, children and families. It is essential to support meaningful dialogue and transformative action by the parliament on the priorities identified by Aboriginal and Torres Strait Islander peak bodies.

In addition to these initiatives, this submission includes the following recommendations regarding policies, programs and services that particularly affect Aboriginal and Torres Strait Islander people:

- **Provide core funding for the institutional capacity of Aboriginal and Torres Strait Islander representation** in policy making and national decision-making.
- **Restore community service funding levels, including under the Indigenous Advancement Strategy** in order to fund recommendations arising from a comprehensive and transparent mapping of service needs in 2018.
- **Develop a new national Aboriginal and Torres Strait Islander housing strategy** with supplementary funds earmarked in the new national agreement to support culturally appropriate housing, including growth of the Indigenous Community Housing Sector as an alternative to mainstream providers.
- **Develop a new Aboriginal and Torres Strait Islander remote funding agreement with costs shared equally between the Commonwealth and State and Territory governments** to meet the construction supply shortfall (5500 new dwellings) and the necessary refurbishments and property and tenancy management costs, through a 10 year commitment.
- **Replace the Community Development Program** with a new employment services scheme for people in remote Aboriginal and Torres Strait Island communities along the lines of the Remote Development and Employment Scheme proposed by APO NT, ensuring the new

scheme maintains entitlements to social security payments and does not impose more stringent activity requirements than those applying to unemployed people generally.[88]

- **Improve access to early childhood education and care for families on low incomes** by redirecting savings from tightening of income test and caps for higher income households and establishing an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net, which provides children with 22.5 hours and enables the provision of playgroups, mobile services and outside school hours care in regional and remote communities[89].
- **From 1 July 2018, abolish compulsory income management and the cashless welfare card trials in all states and territories**, putting in place both transition arrangements for individuals and communities wishing to retain voluntary income management and cashless card schemes; and opt-in schemes which have been co-designed with communities and to include supports and services as elected by communities, which could include drug and alcohol services, financial counselling, mental health and social support services.
- **Introduce a subsidy for the transport of fresh food to remote areas** using revenue from a new tax on sweetened drinks.[90]

---

[88] APO NT (2017): *Op.Cit*.

[89] Estimated cost of $100 million per annum

[90] This could be modelled on a Canadian program, 'Nutrition North America', which provides a transport subsidy to food providers in remote, isolated regions. Funding is based on the total weight of fresh food products shipped to eligible communities, who must then pass on the savings to consumers. The program receives $CA60 million per year.

Australian Council of Social Service

www.acoss.org.au

@ACOSS