Australian Council of Social Service

22 November 2013

Senator David Busby
Chair
Economics Legislation Committee
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
By email: economics.sen@aph.gov.au

Dear Senator,

Re: Minerals Resource Rent Tax Repeal and Other Measures Bill 2013

Thank you for the opportunity to comment on the Minerals Resource Rent Tax (MRRT) Repeal and Other Measures Bill 2013.

This brief submission outlines ACOSS' general position on the MRRT and expresses ACOSS' opposition to the abolition of measures which directly benefit low income people, including the Low Income Superannuation Contribution, the Income Support Bonus and the School Kids Bonus in the absence of alternative measures to support low income households.

Due to the limited time available for consultation on the exposure draft legislation and capacity constraints, this submission does not deal in detail with the technical aspects of the bill.

About ACOSS

The Australian Council of Social Service (ACOSS) is the peak body of the community and social services sector and the national voice for people affected by poverty and inequality. ACOSS' vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

Our membership represents over 3000 organisations and additional individual members through the combined network of the Councils of Social Service (COSS). Our members include community service providers, professional associations, representative and consumer organisations, and members of the public.

ACOSS position on the MRRT

ACOSS believes that Federal, State and Territory Governments must make better use of the fairest and least economically harmful taxes. We support a resource profits tax as a major first step in that direction. Taxes on resources are a fair and economically efficient way to raise revenue.

However, we believe that the lack of transparency around the process of design and the selective adoption of aspects of the Henry Tax Review's proposals without broader public engagement and consultation has reduced its effectiveness. The MRRT was recommended as a component of a broader, considered review of our taxation arrangements.

Despite that, we believe that the current tax should be retained in the short term, and subject to review as part of the comprehensive Green/White Paper process on tax reform which should also include consideration of state royalties and corporate income tax rates. Ad hoc, short term decisions outside of that process are unlikely to contribute to a simpler, fairer and more efficient tax system which is designed to address the growing gap between the community's expectations of the services and supports that Government will provide and the revenue available. There is a broad consensus that the Henry Tax Review panel recommendations remain the best blueprint for an ongoing reform process which will require broad public consultation.

Other Measures

In addition to abolishing the MRRT, if enacted the Bill would abolish three measures designed to assist low income households:

- The Income Support Bonus Payment
- The School Kids Bonus
- The Low Income Superannuation Contribution

These measures were originally linked to the MRRT by the previous Government and intended to be paid for from the proceeds of the tax.

The Income Support Bonus Payment

There is now a broad community and business consensus that the Newstart Allowance is grossly inadequate and must be increased as a national policy priority to reduce poverty and increase employment participation.

The Income Support Bonus Payment provides Allowance recipients with an additional $4 per week. The allowance supplement is the only real increase in Newstart Allowance for almost 20 years. ACOSS has called for a $50 increase to ease entrenched poverty among unemployed people and single parents, many of whom were affected by recent payment cuts. Against that backdrop, to take away a $4 increase is unconscionable.

The maximum single rate of Newstart Allowance is $248 per week. The payment for unemployed young people living independently of their parents is $204 per week. This is not enough to meet the most basic essential costs such as housing, food, clothing and transport costs to search for a job. Research into financial hardship indicates that unemployed people and sole parents face a much higher risk of hardship than most other groups in the community. For example 57% of Parenting

Payment recipients and 28% of Newstart Allowance recipients could not afford to pay utility bills on time compared with 12% of all Australians. Over 40% of both groups could not afford dental treatment when needed.

The real value of Allowance payments has not increased since the early 1990s, and they were not Included in the $32 per week in pensions announced in 2009. As a result, the Newstart Allowance is now $131 per week less than the pension and Youth Allowance is $178 less.

Allowance recipients and those on Parenting Payments also miss out on the $10 per week Utilities Allowance which assists low income households with rapidly increasing power bills. Aside from the inequity of different levels of payment for people with similar living costs, this gap between pension and allowance payments discourages many people on pensions such as the Disability Support Pension from seeking employment, in case they lose the pension and end up on the lower payments. This gap increases every year due to more stringent indexation arrangements for Allowance payments.

The School Kids Bonus

While ACOSS believes that the School Kids Bonus is poorly designed and targeted, any savings from reforming the payment should be devoted to improving the family payment system for low income and middle income families. Specifically, the Schoolkids Bonus should be replaced by higher payments for older children.

With growing child poverty, there is no room for cuts to the essential family payments system and ACOSS would oppose any net reduction in funding to the family payments system. Instead, the priority must be to direct the existing resources where they are needed most. We urge the Government to review and redesign the system and replace existing poorly targeted bonuses with well-targeted assistance for low income families, as per ACOSS' recommendations in *Back to Basics: Simplifying Australia's Family Payments System to Reduce Poverty.* If the Government is determined to abolish the payment, we strongly oppose immediate implementation which would have a direct effect on family budgets over the Christmas period. Its abolition should be timetabled to occur after this period with the payment replaced with an alternative and better targeted payment which properly addresses the current inadequacy of family payments for the lowest income families.

One in six children (575,000) are currently living in poverty in Australia, one of the wealthiest countries in the world. The family payment system plays an important role in the prevention of child poverty and in supporting low and middle income families with the costs of children.

The Schoolkids Bonus was introduced in 2011 and replaced an annual Education Tax Refund established to assist parents with school costs which cost about two-thirds of the cost of the Schoolkids Bonus. The MRRT was supposed to cover the difference between these costs, not the entirety of the cost. While the Government has justified the proposed abolition of the Schoolkids Bonus on the basis of the link to the MRRT, this would only justify a reduction in funding of the difference between the payments.

The School Kids bonus provides $410 for each child in primary school and $820-a-year for each high school student. It was never clear why a separate payment was needed to assist with those costs, which should be taken into account in the general Family Tax Benefit payment. In its previous

Budget the Government had already increased Family Tax Benefit for teenage children (aged 16 years and over) to take better account of the higher costs of children as they grow older. Unlike the Family Tax Benefit (Part A) payment, which is income tested to take account of different family needs, the Schoolkids Bonus is paid at the same rate to families with incomes up to around $120,000.

ACOSS outlined proposals for reform of the School Kids Bonus in some detail in *Back to Basics*.

The *Back to Basics* paper recommended that the Government redirect current expenditures on the Schoolkids Bonus to increase the maximum rate of FTB Part A for school age children in two ways:

- Reflect the progressively higher costs of older children by increasing the maximum rate for 13 to 15 year olds by 50% more than the increase for primary school aged children (5 to 12 year olds), and 100% more for 16 to 17 year olds; and
- Extend the new rates for 16 – 17 year olds to those not at school, recognising that the cost of supporting such children are not different (and that the purpose of the family payments system is to reduce child poverty rather than provide other social incentives).

The ACOSS proposal would result in an increase of at least $32 per week per child over the age of 13. For more detail on ACOSS' proposals for reform of the Schoolkids Bonus, see: http://www.acoss.org.au/images/uploads/ACOSS%20Back%20to%20Basics%20FINAL.pdf

Low Income Superannuation Contribution

The Low Income Superannuation Contribution (LISC) is a small step towards a fairer superannuation system and should be retained.

Before the introduction of the LISC, a worker earning $37,000 or less was penalised by saving for retirement, paying 15¢ in the dollar more tax on their super than if they have received the same amount in wages. The removal of the super contributions rebate would penalise compulsory superannuation contributions by increasing the tax rate for low income earners below $37,000 by 15 cents in every dollar contributed. By comparison, for every dollar contributed by an employer on behalf of an individual earning $200,000 they save 32¢ in tax.

The LISC was an important measure to address the very low superannuation savings of low income people, particularly women. This is particularly important to alleviate pressure on the aged care pension into the future. The LISC should be retained and the future reform of superannuation taxation should be considered along with other tax expenditure measures in the Commission of Audit submission.

ACOSS supported reforms of the superannuation tax concession system under the previous Government, including the LISC, which we believe did not go anywhere near making the system fair and sustainable into the future but represented a move in the right direction. The abolition of the LISC would have a regressive effect, penalising those on low income for saving for retirement. It is also likely to have a disproportionately negative impact on women, who are more likely to be in part-time work and therefore earning below the tax free threshold.

Thank you for the opportunity to comment. ACOSS would welcome the opportunity to provide further evidence at a committee hearing.

Yours sincerely,

Dr Cassandra Goldie
Chief Executive Officer, ACOSS