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A Fairer Australia: Recommendations for the Federal Budget

2007-08

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Recommendations for the Federal Budget

In this submission to the Australian Treasury, ACOSS outlines policy recommendations for consideration by the Australian Government in its 2007-08 Budget. Expenditure proposals costing an estimated \$2,757.20 million (\$4,795.40 million in 2008-09) are offset by revenue recommendations estimated to raise \$770 million (\$4,150 million in 2008-09).

The *expenditure recommendations* are designed to:

- Improve the health and housing conditions of Indigenous Australians.
- Improve access for all to basic health services (including dental care) and community services (including childcare).
- Develop whole-of-government plans to increase fairness, reduce poverty and financial disadvantage.
- Increase the supply of low cost housing in the context of rising rents for low income households.
- Improve the employment prospects and incomes of disadvantaged jobseekers, especially those affected by the 2006 Welfare to Work policy changes.
- Improve access to commercial buildings by people with disabilities.
- Recognise the relatively high cost of raising teenage children in the income support system.
- Improve access to affordable community based legal services, including for Indigenous women.

The *expenditure recommendations* include:

- The Australian Government should make childcare more affordable and accessible by abolishing the 30% Childcare Tax Rebate and linking the value of Childcare Benefit to the actual cost of providing childcare services. The Australian Government should also expand support for inclusion of children with disabilities in childcare and contribute to a Commonwealth/State pool of funds to meet operational and capital costs in areas where services are difficult to establish and where there is significant unmet demand.¹ This funding should be primarily directed to not-for-profit community-based providers.

Cost: \$500 million (\$700 million in 2008-09)

- The Australian Government to fund a comprehensive oral health check or the cost of a basic course of treatment every two years for eligible low income adults, with State Governments to meet any other additional treatment costs.²

Cost: \$160 million (\$320 million in 2008-09)

- Progressively closing the gap between the levels of Newstart and other Allowance payments and pensions, beginning with a \$10 per week increases in single rates of Newstart Allowance and a \$3 per week increase in the partnered rate from July 2007.

Cost: \$340 million (\$360 million in 2008-09)

¹ As proposed in recent ACOSS Info Paper, *Fair Start: 10 point plan for early childhood education and care*, February 2006 http://www.acoss.org.au/upload/publications/papers/393_info%20383_child%20care.pdf

² As proposed in recent ACOSS Info Paper, *Fair Dental Care for Low Income Earners*, October 2006, the cost will rise to \$800m per year in 2012-13 http://www.acoss.org.au/upload/publications/papers/1562_Fair%20dental%20care_%20final.pdf

- Creating new incentives for private investment in low cost rental housing in areas of greatest need by replacing the current depreciation allowance for rental housing with a tax credit targeted towards such investment.

Cost: \$100 million in 2008-09.

- Improving access by people with disabilities to buildings by offering financial incentives to small enterprise to upgrade existing buildings to comply with the *Disability Discrimination Act (Cth) 1992*.

Cost: \$100 million (\$200 million in 2008-9)

- Encouraging and supporting income support recipients to undertake further education and training likely to improve their future job prospects – including through the new Work Skills Vouchers – by adjusting work related activity requirements for parents and people with disabilities, extending JET childcare subsidies for longer courses, and adjusting ‘outcome fees’ for Job Network service providers.

Cost: \$20 million (\$50 million 2007-08)

- Ensuring adequate provision of effective legal services for Indigenous women in family law and family violence matters by allocating sufficient funding to Indigenous Women’s Legal Services for that purpose.

Cost: \$7 million (\$7 million in 2008-09)

- Collaboration between the Australian and State and Territory Governments and the non-government and private sectors, to develop a comprehensive National Anti-Poverty Plan over a 12 month period. This includes the commissioning of independent research on the extent and causes of poverty, and provision of resources to support policy development and consultation.

Cost of development: \$5 million (\$10 million in 2008-09)

In addition to raising revenue to assist with the cost of our expenditure proposals, the *revenue recommendations* are designed improve the equity and efficiency of the income tax system by ensuring that income is taxed in a more consistent way regardless of its source. These recommendations include:

- Preventing the use of discretionary trusts and private companies to shelter income from tax.

Revenue: \$1,700 million in 2008-09

- Making the tax treatment of contributions to superannuation fairer and simpler by replacing existing tax concessions (including the flat 15% tax on contributions from employers) with an annual tax offset (rebate) to be paid into the superannuation fund, that increases public support for the retirement saving of low and middle income earners in a revenue neutral way.

Community Services

At some point in their lives, most Australians will use community services such as aged care or child care. There is a need for better funding and planning of community services by the Commonwealth, States and Territories to ensure that people can access services. As priority matters, ACOSS's recommendations below address community care, child care and the care of Indigenous children.

Community Care

Community Care programs support older people, people with disabilities and their carers. The number of older people likely to need assistance has been projected to rise by 160% between 2001 and 2031. Faced with this demand, Australia requires a better planned system that spends funds effectively to respond to consumer needs.

Recommendation 1 Progress Reform of Community Care & Increase Funding for Home And Community Care (HACC)

The Australian Government should continue to progress the blueprint for community care outlined in *A New Strategy for Community Care – The Way Forward* and increase its baseline contribution to HACC funding by 10% in each of the next two financial years (2007-08 and 2008-09) and provide at least 6% annual growth in real terms each year thereafter.

Cost: \$93 million (\$102 million in 2008-09)

Childcare

While the Government has invested significantly in the number of childcare places, parents still face waiting lists for services, difficulties with the cost of care and variable quality and access to childcare and preschool education.

Recommendation 2 Link Childcare Benefit to the Cost of Childcare

The Australian Government should make childcare for affordable and accessible by abolishing the 30% Childcare Tax Rebate and linking the value of Childcare Benefit to the actual cost of providing childcare services. The Australian Government should also expand support for inclusion of children with disabilities in childcare and contribute to a Commonwealth/State pool of funds to meet operational and capital costs in areas where services are difficult to establish and where there is significant unmet demand.³ This funding should primarily be directed to not-for-profit community-based providers.

Cost: \$500 million (\$700 million in 2008-09)

Recommendation 3 Improve Access to Buildings for People with Disabilities

The Australian Government should act urgently to improve access by people with disabilities to buildings by offering financial incentives to small enterprise to upgrade existing buildings to comply with the *Disability Discrimination Act (Cth) 1992*.

Cost: \$100 million (\$200 million in 2008-09)

³ As proposed in recent ACOSS Info Paper, *Fair Start: 10 point plan for early childhood education and care*, February 2006 http://www.acoss.org.au/upload/publications/papers/393_info%20383_child%20care.pdf

Employment, Education and Training

Despite good economic times, 1.5 million Australians are jobless and reliant on social security. Over 100,000 people on Newstart or Youth Allowance have lacked substantial work for 5 years or more. Those who remain jobless today are drawn from the most disadvantaged people in the labour market. For example, over half those affected by last year's Welfare to Work changes have a Year 10 education or less. A higher level of investment in employment experience, training and support in employment is essential to achieve sustained employment. Anomalies in the benefit rules and activity requirements that discourage further education and training, including the up to \$93 per week gap between Austudy Payment for adult students and Newstart Allowance for unemployed people, should be removed.

Recommendation 4 Encourage and Support Further Education and Training for Jobless People

Income support recipients should be encouraged and supported to undertake further education and training likely to improve their future job prospects through the following measures:

- (i) Adjust activity requirements so that people can use Work Skills Vouchers to fund full or part time courses which in the assessment of their employment assistance provider would improve their future job prospects.
- (ii) Set aside an additional 5,000 Work Skills Vouchers for a pilot program that combines subsidised employment through the Wage Assist program with vocational training on or off the job using the Vouchers.
- (iii) Reduce the intensity of employment related activity requirements for those income support recipients expected to seek part time work (parents and people with disabilities), to allow participation in approved part time education or training, and to give priority to the completion of approved courses where casual or temporary work becomes available.
- (iv) Make JET childcare subsidies available, on a rolling annual basis, for recipients engaged in approved full time education courses for up to two years.
- (v) Remove the age restriction (20 years or under) on access to Outcome Payments for Job Network providers for education outcomes for recipients lacking Year 12 qualifications, and extend Intensive Support Intermediate Payments to education outcomes from part time courses in the case of recipients required to seek part time employment only.

Cost: \$20 million (\$50 million 2008-09)

Recommendation 5 Reform Austudy Payment to Remove Disincentives to Study

To encourage second chance education among low-skilled adults the following measures should be introduced:

- (i) Raise rates of Austudy Payment to Newstart Allowance levels.
- (ii) Integrate Austudy Payment and Newstart Allowance into a single payment with more flexible activity requirements that enable recipients to combine job search, training and study in the most appropriate way to improve their job prospects.

Cost: \$30 million (\$60 million 2008-09)⁴

⁴ Note that the Housing section of this submission includes a recommendation to extend Rent Assistance to Austudy Payment recipients without dependent children which is costed in that section.

Recommendation 6 Improve Employment Assistance for Disadvantaged Jobseekers

Employment assistance through the Job Network for long term unemployed and highly disadvantaged jobseekers should be enhanced and better targeted towards longer term employment outcomes by the following measures:

- (i) Expand the Wage Assist program by an extra 25,000 places per year.
- (ii) Increase resources for providers servicing rural and remote jobseekers by \$350 per job seeker.
- (iii) Curtail the use of Job Seeker Account funds to provide core Job Network services.
- (iv) Raise the Job Seeker Account to the full rate for second time Intensive Support Customised Assistance.
- (v) Increase the 26 week Outcome Payment by 50% and reduce the existing 13 week Outcome Payment.
- (vi) Remove Outcome Payments for subsidised employment, subject to the expansion of the Wage Assist program.

Cost: \$150 million (\$250 million 2008-09)

Fairness

With two million Australians not having a decent quality of life despite economic growth, ACOSS and its members have been calling on the Government to consult with the community to create and implement a National Anti-Poverty Plan.

National Anti-Poverty Plans have been implemented in several countries to take a holistic approach to reducing poverty and the causes of poverty. The Plans work across government departments to meet anti-poverty targets and lower measurable levels of disadvantage in society such as unemployment, lack of education and poor housing standards.

Britain and Ireland in the late 1990s devised and implemented national anti-poverty plans. Key elements of these plans were:

- An agreed definition of poverty
- analysis of causes of poverty and groups most at risk
- an overall target to reduce poverty
- specific targets to address causes of poverty including targets on educational disadvantage, unemployment, health, housing and income.

Recommendation 7 Develop a National Anti-Poverty Plan for Australia

The Australian Government should collaborate with the State and Territory Governments, and the non-government and private sectors, to develop a comprehensive National Anti-Poverty Plan. The strategy should be developed over a 12 month period of consultation including a National Anti-Poverty Summit. Independent research on the extent and causes of poverty, and provision of resources to support policy development and consultation, are needed to facilitate this.

Cost of development: \$5 million (\$10 million in 2008-09)

Recommendation 8 Fairness Impact Statements

The Australian Government should prepare impact statements on the likely effects of proposed legislation on those Australians whose households fall within the bottom 40% of all households, ranked according to disposable household income (adjusted to take account of household size). The statement should also consider population groups facing a high risk of poverty and social exclusion such as Indigenous people, people with disabilities or illness, homeless people and people from culturally and linguistically diverse backgrounds. The potential impacts covered in Fairness Impact Statements could include: access to basic health services, access to basic community services, effect on poverty levels, access to education, access to affordable and safe housing, employment rates, impact on literacy, impact on infant mortality and life expectancy.

Cost of development \$5m (2008-09)

Health

Health is a basic necessity yet there are some real inequities in our health system. For example, people with private hospital cover can jump the elective surgery queues in public hospitals and are assisted in doing so through tax rebates, while low income and disadvantaged Australians who cannot afford private health cover struggle to meet the costs of basic health care such as dental treatment.

Recommendation 9 Boost Funding for Primary Dental Services

The Australian Government should cover the cost of a comprehensive oral health check or the cost of a basic course of treatment every two years for eligible adults. State and Territory Governments would be responsible for meeting any other additional treatment costs for eligible adults and for planning and delivering oral health care to eligible adults according to need.

Cost: \$160 million (\$320 million in 2008-09)

Recommendation 10 Invest in Primary Health Care Centres

The Australian Government should demonstrate its policy leadership in supporting community-based health services by investing substantial funds to drive enhancements in the availability, scope and standard of community based health care services, which provide multi-disciplinary health teams. This should initially be targeted to areas of greatest need including areas of high unemployment and other indicators of social disadvantage, remote and rural areas and areas of high populations of Indigenous people.

Cost: \$400 million (\$500 million in 2008-09)

Recommendation 11 Universal entitlements to health services

The Australian Government, in consultation with State and Territory Governments and the wider community, should develop:

(i) A Charter of Medicare Entitlements which sets out:

- the principles which underpin a universal health insurance system in which the private sector has a major role
- Medicare Entitlements to Services – the services that the Australian Government will fund for Australians whether public or privately insured and the maximum time that individuals should have to wait for service for major services (regardless of whether privately insured)
- the additional benefits, entitlements or privileges that is available to privately insured persons.

(ii) A Charter of Mutual Obligations which requires:

- the public and private sector to work together to ensure that services are allocated according to need and within the times specified in the Medicare Entitlements to Services, regardless of insurance status
- public and private health service providers who receive Australian Government funding to meet efficiency and other standards set by the Government
- public and private sector health service providers to keep fees and charges to agreed levels (the Australian Health Care Agreements already defines this for public sector providers)
- mechanisms by which the Australian and State and Territory Governments, and private sector providers will ensure that the elements of the Charter of Medicare Entitlements and Charter of Mutual Obligations will be implemented and enforced.

Cost: \$1 million

Housing

With the rise of housing prices in most parts of Australia, especially major cities, many people are struggling to pay rent or mortgage repayments. People on low incomes are particularly worse off – paying more than 30% of their income on rent and often forced to live in low-rent areas where jobs and transport are scarce. National action is needed to address the housing affordability crisis and to alleviate the conditions of Australians needing Rent Assistance and public housing.

The Government should work towards the adoption of a national affordable housing agreement that will bring together a range of Australian Government policies and subsidies that affect housing affordability, including the Commonwealth State Housing Agreement, Rent Assistance, the First Homeowners grant, and a range of tax policies that impact on housing affordability and investment in the private rental market (including negative gearing capital gains taxes and superannuation).

Recommendation 12 Invest in Low Cost Housing

Investment in low cost housing in areas of greatest need should be strengthened by increasing affordable housing investment and by replacing the current depreciation allowance for rental housing with a tax credit targeted towards new investment in low cost rental housing. The tax credit would equal 4% of construction costs for low-rental housing stock.

Cost: \$100 million in 2008-09

Recommendation 13 Help Low Income Earners with the Cost of Rent

The Government should address the significant affordability problems low income earners face when accessing or living in private rental housing by:

- (i) Raising the maximum Rent Assistance payable by at least \$10 per fortnight.

Cost: \$80 million (\$142 million in 2008-09)

- (ii) Extending Rent Assistance to single students 25 years and over on Austudy Payment.

Cost: \$36 million (\$39 million in 2008-09)

- (iii) Extending Rent Assistance to 16 and 17 year olds living in the parental home and regarded as dependent for the purpose of Youth Allowance (as they should similarly be regarded as dependent for Rent Assistance calculations under family payments).

Cost \$80 million (\$160 million in 2008-09)

- (iv) Reviewing the 'sharer's initiative', which pays less rent assistance to people sharing rental accommodation and reviewing the breach penalty for 'moving to a lower employment area'.

Cost: Neutral

- (v) Further investigate a model for the payment of Rent Assistance in order to take account of geographical variations in rent.

Cost: Neutral

Recommendation 14 Extend and Improve Public and Community Housing

The Government should progressively increase the level of public and community housing to a minimum benchmark of 6% of national housing stock. This would include facilitating an effective mix of public and private investment options that increase the supply of new stock and address the operational viability of State Housing Authorities.

Cost: \$500 million in 2008-09

Indigenous communities

While Australia is a relatively wealthy country, many Indigenous Australians are living in poverty and have poor health and housing. On average Indigenous men die 21 years before other Australian men and Indigenous women die 20 years before other Australian women. Indigenous babies are four times more likely to die before their first birthday – largely due to preventable diseases. Urgent action is needed to address these problems and give Indigenous children a better start to life.

Recommendation 15 Upgrade and Improve Indigenous Housing

A five billion dollar ten-year Indigenous Housing Strategy should be developed with additional funding to bring housing for Indigenous people to an acceptable standard and to eliminate overcrowding. Commitments to address Indigenous housing needs must take account of current rate of population growth to adequately accommodate young families.

Cost: \$250 million (\$500 million in 2008-09)

Recommendation 16 Boost Funding for Indigenous Health

The Australian Government should substantially boost resources to health services for Aboriginal and Torres Strait Islander people – especially primary and preventive health care and the Primary Health Care Access Program – by at least \$400 million per year within five years. The allocation of these resources should be determined in consultation with Indigenous community organisations.

Cost: \$460 million (\$500 million in 2008-09)

Recommendation 17 Expand Children's Services for Indigenous Children and Families

The Government should fund the establishment and resourcing of an additional 35 community-based Indigenous childcare services which are multifunctional and responsive to community needs.

Cost: \$20 million (\$25 million in 2008-09)

Law and Justice

Legal services help ensure that people's rights are protected in matters of separation and family breakdown, in seeking protection from violence, when facing civil or criminal action or when disputing Government administrative decisions. Legal services for disadvantaged Australians are seriously under-funded and this has led to increases in the number of people representing themselves before courts and tribunals. In addition, people from non-English speaking backgrounds and Indigenous Australians are often not given adequate help to navigate the legal system. ACOSS proposes greater funding of services for these people and for people living in rural, remote and regional Australia who have the greatest problems accessing services.

Recommendation 18 Strengthen Indigenous Women's Legal Services

The Australian Government should allocate sufficient funding to Indigenous Women's Legal Services to enable adequate provision of effective legal services for Indigenous women in family law and family violence matters, including funding for additional culturally sensitive services in areas of highest need.

Cost: \$7 million (\$7 million in 2008-09)

Recommendation 19 Boost Funding for Community Legal Centres

Community Legal Centre Program funding should be boosted to attract and retain skilled and experienced staff, provide extra loadings for regional, rural and remote centres and meet increased overhead costs.

Cost: \$24 million (\$25 million in 2008-09)

Recommendation 20 Assess Interpreter Services

The Commonwealth, State and Territory Governments should jointly fund a pilot program in each jurisdiction to assess the viability of a 'one-stop-shop' interpreter service for community legal centres and legal aid services, to be administered by the legal aid commissions.

Cost: \$0.4 million (\$0.4 million in 2008-09)

Social Security

The current social security system is complex and unfair because people in similar circumstances can be put on different payments with different rates – the lower allowances such as Newstart Allowance and Austudy Payment or the higher pensions such as the Disability Support Pension or Parenting Payment. The Welfare to Work changes that commenced last year will divert 160,000 single parents and people with disabilities from the higher pension payments to lower allowance payments, making them worse off by between \$30 and \$165 per week. Financial hardship is also caused by the drop in social security payments for many jobless and low paid working families when their teenage children reach 16 years – the time most families face higher costs related to the completion of secondary school.

ACOSS recommendations below are first steps towards simplifying the system so that some disincentives to work and study are removed and the extra costs facing people with disabilities are recognised.

Recommendation 21 Simplify Payments by Closing the Allowance-Pension Gap

The gap between Newstart and other Allowance payments and pension rates should be progressively closed. As a first step, single rates of Newstart Allowance should be raised by \$10 per week and the partnered rate by \$3 per week from July 2007.

Cost: \$340 million (\$360 million in 2008-09)

Recommendation 22 Establish a Cost of Disability Supplement for People with Disabilities

The Government should commit to developing and implementing a supplementary social security payment to assist with the non discretionary costs of disability, in consultation with disability advocates service providers and experts. The Supplement should include a mobility component to broaden and replace the existing Mobility Allowance, and a component for health related items other than PBS items.

Cost: \$0.8 million

Recommendation 23 Recognise the higher costs of older children

Youth Allowances for families with dependent children aged 16 to 17 years, and 18 to 25 years, should be raised from July 2008 by \$15 per week to reflect the higher cost of supporting these young people.

Cost: \$240 million in 2008-09

Tax – Recommendations to offset Key Budget Recommendations

The income system is unfair and inefficient in collecting public revenue, due to a range of tax shelters and loopholes used by high income earners to avoid tax, including the use of private companies and trusts, and 'golden handshakes' on termination of employment. If these were curbed there would be adequate funding to implement ACOSS's key recommendations to improve essential services such as health, education and community services for all Australians as well as improve the situation of jobless people, Indigenous communities and others.

The tax treatment of superannuation is also unfair and costly to public revenue. High income earners who sacrifice salary for more contributions from their employers receive much greater tax savings per dollar contributed to superannuation than low or middle income earners. The recently legislated changes to taxes on superannuation benefits overwhelmingly benefit high income earners. The ACOSS proposals to reform the tax treatment of superannuation contributions would introduce an element of fairness into the system and boost the retirement savings of low and middle income earners. These changes would be revenue neutral.

Recommendation 24 Replace existing tax concessions for superannuation with a fairer and simpler annual tax rebate

A two-tier annual tax offset (rebate), paid annually into the relevant superannuation fund(s), should be introduced to replace all existing tax concessions for superannuation contributions. The new rebate should:

- (i) apply to the sum total of all contributions (whether compulsory or voluntary)
- (ii) be paid at the rate of 100% of contributions up to a low flat annual contributions ceiling (to boost superannuation tax concessions for people on low incomes), plus 20% for additional contributions up to a higher flat annual ceiling (sufficient to encourage a modest level of voluntary saving by an employee on an average full-time wage).

Employer superannuation contributions (including nominal employer contributions to defined benefit schemes) should be taxed at source through the PAYG system at the relevant marginal income tax rate.

Revenue: neutral

Recommendation 25 Reform Fringe Benefits Tax

The treatment of fringe benefits in the tax and social security systems should be rationalised to remove major advantages to corporate employees in sacrificing salary for fringe benefits and to simplify Fringe Benefits Tax (FBT) with regard to minor fringe benefits, by:

- (i) tightening the statutory formula to eliminate the concessional treatment of company cars
- (ii) following the full implementation of the above measure, meal and entertainment expenses should be non-deductible but exempt from FBT.

Revenue: \$450 million (\$700 million in 2008-09)

Recommendation 26 Curb Use of Trusts and Companies as Tax Shelters

The sheltering of personal income from tax using discretionary trusts and private companies should be curbed by:

- (i) Tightening the tax treatment of the income of discretionary trusts by either taxing trust income in like manner to company income⁵, or by applying the Capital Gains Tax to untaxed and concessionally-taxed income distributed to beneficiaries.

Revenue: \$400 million in 2008-09

- (ii) Tightening the exemptions for personal services businesses, which derive their main income from the owner's labour, so that this income is taxed at the appropriate rate.

Revenue: \$300 million in 2008-09

- (iii) Introducing a withholding tax on income that is not distributed by private companies to shareholders by the end of each financial year, above a threshold that makes allowance for the reinvestment needs of the company. The rate of this tax should be equal to the difference between the corporate tax rate and highest marginal rate of personal income tax plus Medicare Levy.

Revenue: \$1,000 million in 2008-09

Recommendation 27 Rationalise tax breaks for private health insurance

The 30% Health Insurance Rebate should be removed from ancillary health cover from July 2008.

Revenue: \$1,000 million in 2008-09

Recommendation 28 Tax large payments made on termination of employment in the same way as other income, subject to a special tax free threshold

Lump sum payments by employers to high income earners on the termination of their employment (other than superannuation) should be taxed at the employee's marginal tax rate rather than at the current 15% and 30% maximum tax rates for Eligible Termination Payments and unused leave. Subject to this, the special 'tax free thresholds' that currently apply to redundancy payments should apply to annual and unused long service leave entitlements.⁶

Revenue: \$220 million (\$250 million in 2008-09)

Recommendation 29 – Make Tax Expenditures More Transparent

As recommended by the OECD, Australia should subject tax expenditures to the same rigorous cost-benefit assessment and approval processes as direct expenditures, by:

- (i) grouping them together with equivalent direct expenditures in budget papers
- (ii) incorporating tax expenditures in any expenditure caps
- (iii) assigning expenditure to relevant departments for annual expenditure review purposes, with input from the Finance and Treasury departments.

Revenue: \$100 million (\$500 million in 2008-09)

⁵ This proposal involves introducing a withholding tax and imputation system along the lines of the corporate income tax (taking account of proposed changes to that system in Recommendation 26(iii)).

⁶ An extra tax free threshold will benefit those on low incomes who receive redundancy payments and unpaid leave.