



Analysis of waste in the Federal Budget

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This year's Federal Budget will be a tight one. Despite a budget surplus of at least \$5 billion, the Government is under pressure to rein in spending to provide a financial buffer against the possibility of a future economic downturn.

Ministers are examining over dollar of new “welfare reform” spending to help jobless people into work. Yet \$12 billion is being wasted on tax breaks concessions and subsidies to well-off people who don't need them, and to uncapped programs that will eventually inflate the cost of essential health and child care services for all Australians. The cost of these tax breaks and concessions will continue to rise in future if they are not abolished or trimmed back. In particular, the cost of wasteful tax breaks for superannuation for high income earners and for well off retired people will rise exponentially as the population ages.

In this Federal Budget, the Government should rein in these costly tax breaks and concessions instead of targeting the poorest in the community for reductions in their social security payments.

The \$12 billion in wasteful tax breaks and concessions are detailed in the chart below.

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ACOSS Budget waste analysis

Wasteful program or decision	Who benefits?	How much does it cost? (\$ billions in 2006-07)
Superannuation tax breaks for high income earners		
1. Tax breaks for employer superannuation contributions for high income earners	Reduces marginal tax rates on super contributions for high income-earners from 43.5% or 48.5% to 15% or 30%. ¹	\$1,890 million ²
2. Superannuation surcharge to be cut from 15% to 7.5%	Only taxpayers on \$100,000 per year or more benefit, as the surcharge only applies to their super contributions.	\$255 million
Rebate for private health insurance		
3. Health insurance rebate	30% rebate on private health premiums. High income earners benefit disproportionately. For example, those who can afford private insurance have dental subsidised while poor people wait for years for public dental care. The rebate is not capped, so it inflates cost of health care and shifts resources from public to private health care. ³	\$2,635 million
Tax breaks for wealthy investors		
4. 50% Capital Gains Tax discount	In 2000 the Government cut rates of tax on capital gains (from sale of assets like shares and property) by half. ⁴ In 2002, the top 3% of tax-payers on \$100,000 or more received half of all taxable capital gains, so they are the prime beneficiaries of this discount. This 50% CGT discount, together with negative gearing was a major cause of the property bubble and higher first home prices.	\$2,720 million

¹ This depends on whether the superannuation contributions surcharge applies.

² The total cost of tax concessions for employer super contributions is \$7,570 million, of which roughly half goes to high income-earners. We consider high income earners receive twice the tax break they need to encourage retirement saving. From Tax Expenditures Statement (2004).

³ In 2004 the Government increased this rebate to 35% for people aged 65-69 and 40% for people over 70 years, at a cost of an extra \$139 million in 2006-07.

⁴ Capital gains were previously taxed at marginal rates, but the 'cost base' was indexed to inflation. In 2000, indexation was replaced by a 50% discount.

Tax breaks for high paid workers		
5. Termination Payments Tax Offset.	High income earners leaving a job receive a big tax break on their lump sum termination payments through this tax offset. Their “golden handshakes” are often taxed at only 15% or 30%.	\$650 million
6. Fringe Benefits Tax (FBT) concessions for company cars	FBT for company cars for employees is levied at a discounted rate. Most of the benefit of this tax break goes to high-income employees who sacrifice taxable salary for a company car or two.	\$1,180 million
Tax breaks for well-off older people		
7. Senior Australians Tax Offset	In 2001, the Government introduced a tax offset for retirees too wealthy to get the pension. Now worth up to \$2,230, it raises the tax free threshold for older Australians to \$20,500. This mainly benefits the top 20% of older Australians (including couples on up to \$60,000), most of whom previously earned high incomes.	\$1,780 million
8. Seniors Concessions Allowance	In 2004 the Government announced a \$200 per year allowance to help with utilities bills for well off retirees with Seniors Health Cards, who have incomes of \$60,000 to \$80,000 (in the case of couples). Age Pensioners on lower incomes got just \$100.	\$66 million
Rebate for child care expenses		
9. Child care rebate	Last year the Government announced a 30% rebate on the “gap” between Child Care Benefit and child care fees. The big winners are high income earners because they buy more expensive child care and receive a lower Child Care Benefit, so have the biggest ‘gap fees’. The rebate will spur inflation in child care fees for low and middle income families.	\$280 million
Total		\$11,456 million

Sources: Treasury (2004), Tax Expenditure statement; Treasury (2004) Mid Year Economic and Fiscal Outlook; Treasury (2004) Budget Paper No 2; ATO (2004) Taxation Statistics, 2002-03