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Social Inclusion and Economic Security: Recommendations for the Federal Budget

Budget Priority Statement 2009-10

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Overview

In this submission to the Australian Treasury, ACOSS outlines policy recommendations for consideration by the Federal Government in its 2009-10 Budget to increase social inclusion at a time of economic uncertainty.

The official projections in the MYEFO in November suggested that unemployment would rise to 5.75% (an increase of over 150,000 people) by July 2010. This now appears to be a conservative estimate. If the economy slows further, it is predicted that unemployment could double within 18 months.

This will create considerable financial hardship in the families and communities most affected, exacerbated by the inadequate level of social security payments for those affected by unemployment.

The number of people who rely on these payments will increase substantially if unemployment goes up. The most immediate way to prevent hardship and stimulate economic growth in the worst affected areas is to increase these payments. This is best done as part of a wider reform of the social security system to remove historical anomalies between payments and improve opportunities and incentives for people to engage with the labour market.

Of particular concern is the likely rise in long term unemployment about a year after the downturn occurs. Those already out of work during the boom were drawn from the most disadvantaged groups in the jobs market. They will be pushed to the end of the jobs queue, where they will be joined by a growing number of newly unemployed people with barriers to work (for example, people with disabilities or low levels of education). Past experience of economic downturns demonstrates that long term unemployment rises quickly after a downturn but can take many years to come down through the recovery. This has severe social consequences – poverty, family breakdown, health problems and neighbourhood decline. It is a social imperative and economically desirable to stem long term unemployment before it becomes entrenched.

This Budget submission is designed to achieve four objectives: ease hardship; restore economic and jobs growth; quickly reduce long term unemployment; and restore the budget to balance once the economy recovers. At the same time, the proposals take into account the need to improve Australia's economic, social and environmental future. They represent an investment in essential economic and social infrastructure and the skills and capabilities of people presently excluded from the labour market and society.

The key features of the submission are outlined below.

(1) Ease hardship

Increase allowances by halving the gap between allowances and pensions and extend the Utility Allowance to sole parents and unemployed people.

(2) Restore growth in jobs

ACOSS welcomed the Government's quick action to stimulate the economy through increases in payments (which would have been even more effective if extended to unemployed people) and the bringing forward of public investment. Our three top priorities for infrastructure improvement are social housing, public transport in metro areas and regional cities, and investing in homes to improve energy efficiency.

There is also a pressing need during an economic downturn to invest in community services that cushion the social effects of job losses and declining incomes.

Given that State and Territory Governments lack the financial capacity of the Commonwealth to maintain (let alone raise) their expenditure in crucial (and job intensive) community services, the Commonwealth should provide immediate assistance to the community services sector and State and Territory Governments to deal with the social effects of the downturn.

Some of this assistance should be permanent as more investment is needed to reduce social exclusion in the longer term. These increases in expenditure should be part of a wider, coherent social inclusion plan targeted to those groups and communities most affected by social exclusion and focused on improving social inclusion outcomes.

(3) Reduce long term unemployment

Long term unemployed people are unlikely to get jobs – especially in a downturn – without substantial training and support to improve their work capacity and skills and give them experience of regular paid employment to re-connect them with the labour market.

The biggest gap in assistance for long term unemployed people in the new 'universal employment services' system is a lack of investment in paid work experience in a regular job, which helps maintain the connection of many long term unemployed people with the job market. We propose much greater investment in this area.

(4) Restore the Budget to balance as the economy recovers

It is socially desirable and economically responsible to allow, indeed to engineer, for the Budget to move into deficit during a major economic downturn. This is one of the main reasons to build up surpluses during boom times.

It is also important to take steps to ensure that the Budget returns to balance (net of essential investment in infrastructure that has long term social and economic benefits) as the economy recovers.

This submission proposes a number of measures that would restore revenue and curb wasteful expenditure as the economy recovers. Commencing in 2010-11, Federal Government revenue would be strengthened (by \$3.8B per year) by closing off loopholes and shelters in the tax system mainly exploited by people on high incomes.

Community Services and Health

Community services include disability and aged care services, child care, family relationship services, homelessness services and emergency accommodation, mental health and drug and alcohol services, domestic violence and sexual assault services, community legal services, emergency relief, financial counselling and child protection services.

The 2008 Australian Community Sector Survey¹ found that many of these services are struggling to meet demand, and it is anticipated that demand will increase significantly as the global financial crisis starts to affect the local economy and unemployment rises.

Properly funded and supported community services will be critical in maintaining and bolstering social inclusion at a time when economic forces put communities under pressure. Community services will also play a key part in helping avoid entrenched social exclusion that could emerge in communities particularly affected by the economic downturn, for example through high levels of long term unemployment.

The recommendations below are aimed at assisting services meet current and future demand and better targeting government assistance in key areas to low income families.

One area of manifest inequality and extreme need is access to dental care for people living on low incomes. While ACOSS welcomed the Government's announcements to reduce public dental waiting lists, the level of funding falls short of what is needed and is not oriented to long term prevention.

Recommendation 1: Funding boost to programs

Family relationship services, homelessness services, emergency accommodation, mental health and drug and alcohol services, domestic violence and sexual assault services, emergency relief, financial counselling, and child protection services are all likely to experience an increase in demand as a result of the economic downturn.

To enable services to prepare for an increase in demand and provide a stronger base for services in the longer term, the Government should provide a funding boost to relevant programs.

Cost: \$300 million in 2009-10 (\$312 million in 2010-11)

¹ ACOSS, Australian Community Sector Survey Report 2008, p. 2

Recommendation 2: Grant indexation

Adequate price indexation for funding provided by the Commonwealth Government for the delivery of community services is essential to ensure that the value of the funding keeps pace with costs. The Commonwealth does not have a consistent or adequate approach to indexation of funding to community organisations. Eighty-two per cent of respondents to the 2008 Australian Community Sector Survey reported that Government funding did not cover the true cost of delivering contracted services.²

Given that community services are human resource intensive and that salaries constitute the major cost component, it is proposed that the Wage Cost Index be used as the primary index for annual funding adjustments, with the Consumer Price Index being used when this exceeds the Wage Cost Index.

The Wage Cost Index average over the past three years is 4.5% and, in recognition of past inadequate indexation, it is recommended that the Government provide an initial increase of this amount across its funded programs, including to the States and Territories via Specific Purpose Payments.

Cost: \$510 million in 2009-10 (\$520 million in 2010-11)

Recommendation 3: Link Childcare Benefit to the cost of child care

The Australian Government should make childcare more affordable and accessible by:

- (i) Folding the 50% Child Care Tax Rebate into Child Care Benefit by increasing the base rate, which is the fairest way to help parents meet the cost of child care.
- (ii) Exploring the feasibility of linking the value of Child Care Benefit to the actual cost of providing childcare and mechanisms for controlling prices.
- (iii) Expanding support for inclusion of children with disabilities in child care.
- (iv) Further supporting access to child care services by contributing to a Commonwealth/State pool of funds to meet operational and capital costs in areas where services are difficult to establish (e.g. where there is no government or community land available) and where there is significant unmet demand.³ This funding should primarily be directed to government and not-for-profit community-based providers.

Cost: \$145 million (\$150 million in 2010-11)⁴

² Ibid, p. 5

³ As proposed in 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

⁴ Being additional funding for Commonwealth/State funding pool.

Recommendation 4: Dental care

The 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 (Pensioner and Health Care Card Holders). 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 2010-11)

Employment, Education and Training

Over half of all Newstart Allowance recipients have been unemployed for more than a year and over one third have been out of work for over 2 years. In the event of a serious economic downturn, the level of long term unemployment is likely to rise substantially. On past experience, it will take many years to reduce long term joblessness to previous levels in the absence of major investment in appropriate employment assistance for this group. Prolonged unemployment creates severe financial hardship. It is also socially harmful, leading to severe health problems, family breakdown, and the entrenchment of social exclusion in the worst affected communities.

The new employment services system to be implemented from July 2009 is a significant improvement on the current Job Network arrangements. Instead of prescribing a fixed sequence of employment assistance for all, it gives providers more flexibility to respond to individual needs. The major weakness of the new system is that after 12 months of unemployment, most people will be offered a very low level of assistance because the 'work experience' phase of the new model is under-resourced. Each unemployed person entering work experience attracts just \$500 in Employment Pathway Funds to purchase work experience, together with funding for an interview every two months. This will not be adequate to overcome their barriers to work, especially the lack of paid work experience in a regular job.

In the event of a serious economic downturn, long term unemployed people will have considerable difficulty obtaining regular employment, especially in those regions most affected by the downturn. This will greatly diminish their future job prospects. For this reason, in previous economic downturns Governments have rapidly expanded programs that offer paid work experience on a large scale. The rapid rollout of these programs meant that the work experience and training they provided were often of poor quality. The best paid work experience programs are designed to transition people into mainstream employment rather than simply offer temporary work. We recommend that the Government establish programs along these lines as soon as possible, so that providers can experiment with different options to establish what works best. This would build the foundations for an effective, larger scale program if one is required. The programs would be available as an option to employment service providers to assist job seekers in the work experience phase of employment assistance. Providers would thus be encouraged to target them towards those most likely to benefit and achieve ongoing employment.

Recommendation 5: Improved employment assistance for long term unemployed people

The resources provided to employment service providers in the new employment services system to assist long term unemployed people in the Work Experience phase should be enhanced by:

- (i) Increasing annual service fees to the levels that apply to Stream 2 job seekers (currently \$885).
- (ii) Increasing Employment Pathway Fund credits to the level for 'transitional' job seekers in Work Experience (currently \$750) and crediting this amount on an annual basis for each year of Work Experience, to be spent on job seekers in Work Experience only.

Cost: \$50 million (\$100 million in 2010-11)⁵

Recommendation 6: Paid work experience for long term unemployed people

A paid work experience program that provides temporary employment in regular jobs should be established as an option that employment service providers can offer to long term unemployed people during the work experience phase of employment assistance.

The program should be designed so that, in the event of a major downturn in the Australian economy, it can be quickly expanded in areas with the highest levels of long term unemployment to prevent long term joblessness from becoming entrenched and provide an economic stimulus to the worst affected regions.

Consideration should be given to requiring contractors and Governments that receive Commonwealth Government support in the form of infrastructure and other grants to boost local economies to engage a certain number of long term unemployed people under this program.

The program would have two components.

The first component would:

- (i) Be targeted towards recipients of social security payments with activity requirements who have reached the work experience phase of employment assistance, on the basis of the likely improvement in their future job prospects arising from their participation in the program.
- (ii) Offer employment for approximately six months at a training wage (for example, the National Training Wage) in a regular job in the community or public sector, including a part time option for parents and people with a partial work capacity.

⁵ Ideally, savings in benefit payments while people participate in subsidised employment should be taken into account in the costings; however this was not attempted here.

- (iii) Be administered by employment service providers, who would also provide mentoring and other support to the unemployed person and their employer.
- (iv) Be linked where appropriate to vocational training funded through Productivity Places program, so that work experience and training can be combined.
- (v) Be funded by deposits in the provider's Employment Pathway Account that are tied to this purpose and target group. Wages should be subsidised at up to 100% at the training wage, subject to employer commitments regarding displacement of existing staff.

The second component would incorporate the above features, except that:

- (i) Employers would receive more than 100% of the wage in return for conducting accredited training, providing mentoring support on the job, and guaranteeing ongoing employment to those who successfully complete their training.
- (ii) The role of the employment service providers in this component would be more limited, including referral of potential trainees, monitoring of progress with the placement, and ensuring compliance with activity requirements.

Cost: \$350 million (\$550 million in 2010-11)⁶

⁶ Ideally, savings in benefit payments while people participate in subsidised employment should be taken into account in the costings, however this was not attempted here.

Housing and Infrastructure

ACOSS has welcomed the range of housing policies announced by the Government in its first year, including the National Rental Affordability Scheme, the Housing Affordability Fund, the National Housing Supply Research Council, the Homelessness White Paper, the A Place to Call Home strategy and additional funding for homelessness and social housing under the National Affordable Housing Agreement (NAHA).

Despite the current financial crisis, house and rent prices in most parts of Australia, especially major cities, remain very high with many people struggling to pay rent or meet mortgage repayments. People on low incomes are particularly affected – often paying more than 30% of their income on rent and forced to live in low-rent areas where jobs are scarce and public transport is inadequate.

The negotiation of the NAHA provided Governments with an opportunity to substantially increase investment in key areas of housing need - public and community housing for low income households and rent assistance to low income tenants in the private rental market - but to date there has been limited additional investment.

ACOSS has welcomed the Government's action in bringing forward infrastructure spending.

Given the housing rental crisis and major problems of access to public transport in many parts of metropolitan and regional Australia, priorities for immediate investment should include a major boost to the construction of public and community housing (there is a critical need, it would provide a quick boost to construction industry and it is employment intensive), as well as investment in public transport infrastructure.

Another area requiring immediate investment is a national energy efficiency program for low income households to assist them in adapting to a low carbon future. In its Carbon Pollution Reduction Scheme White Paper, the Government acknowledged the need for investment in home energy efficiency improvements and undertook to deliver measures ahead of the commencement of the CPRS in 2010. The Government recognises that low income households are constrained financially from making appropriate improvements and will require assistance. ACOSS and its partners have developed a plan for information, education, home audits, retrofits and appliance upgrades that would significantly upgrade housing stock while providing effective, long term and widely distributed economic stimulus.

Recommendation 7: Ear-mark funding for public and non-profit housing stock expansion

An Affordable Housing Growth Fund should be established with \$7.5 billion over 4 years strictly ear-marked for expanding the stock of public and non-profit housing (with a target to increase the stock of public and non-profit housing by 30,000 additional dwellings by 2012). This would require additional investment of \$5 billion/ 4 years with funds to be contributed on a proportional matching basis by the

Commonwealth and the States/Territories. (Figures below represent an approximate Commonwealth contribution).

Cost: \$875 million (\$875 million in 2010-11)⁷

Recommendation 8: Establish an Operating Subsidy Program

An Operating Subsidy Program should be established, with funding of \$3.5 billion over four years provided by the Commonwealth.

Cost: Neutral⁸

Recommendation 9: Review CRA and increase the maximum rate of CRA

Commonwealth Rent Assistance (CRA) should be reviewed to ensure that it best meets the needs of all low income renters. As a first step, the maximum rate of CRA should be increased by 30% (approximately \$15 per week) for low income households currently receiving the highest rate of CRA.

Cost: \$500 million in 2009-10

Recommendation 10: Public transport infrastructure

As part of its pre-election platform, the ALP recognised a role for the Commonwealth Government in delivering public transport infrastructure, with particular focus on the needs of disadvantaged regions in outer-urban and regional areas.

Given the absence of adequate public transport in many areas, ACOSS recommends that the Commonwealth provide funding specifically for sustainable public transport infrastructure in areas of greatest need and where long term infrastructure investment is justified.

The funding under this recommendation is for one-off capital funding but the second year component includes some recurrent funding for the States and Territories to enable them to meet maintenance and other ongoing costs.

Cost: \$1,500 million (\$1,700 million in 2010-11)

⁷ This figure includes the \$400 million/ 2 years investment in social housing under the National Affordable Housing Agreement.

⁸ Existing funding under the National Affordable Housing Agreement could be directed to this purpose, with new funds allocated to stock growth.

Recommendation 11: Low income household retrofit program

To assist low income households reduce consumption of energy and water to minimise the impact of increasing energy costs, adapt to the effects of climate change and transition to a low carbon future, the Government should commence a national program for low income households that includes information and education, home audits and retrofits, upgrades for basic equipment such as and refrigerators and hot water systems.

Cost: \$600 million (\$800 million in 2010-11)

Indigenous Communities

Many Indigenous Australians are living in poverty and have poor health and housing. Urgent action is needed to address these problems and give Indigenous children a better start to life.

Government commitments and actions to close the gap in life expectancy, child mortality, literacy and numeracy, employment outcomes, Year 12 schooling and access to pre-school education are welcome as are increased resources for maternal and child health, early childhood development services and parenting support. Yet, greater resources are still required to meet the health needs of Indigenous people.

In total, the 2008-09 Federal Budget provided \$718.7 million over five years for 'closing the gap' initiatives with the majority of this funding provided for Northern Territory initiatives (\$426.6 million over 5 years), including \$320.9 million in 2008-09 for activities that are part of the Northern Territory Emergency Response (NTER).⁹ Spending on national programs for Indigenous health in the 2008-09 Budget averaged less than \$40 million per year over the next 5 years. In October 2008, the Government announced additional funding of \$215.1 million over 4 years for Indigenous Children and Family Centres.¹⁰

Joblessness among Indigenous people living in remote areas is entrenched, with limited skills and few opportunities for regular employment locally. The Government has set a target to halve the employment gap between Indigenous and non-Indigenous Australians within a decade. To meet the target means an additional 100,000 Indigenous Australians entering the workforce. The Australian Employment Covenant, a national industry-led initiative signed last year, involves a commitment to the placement and long-term retention of 50,000 Indigenous people into 'Covenant jobs'.

The Government has proposed a number of reforms to the Community Development Employment Projects (CDEP) program which would significantly change the character of CDEP in remote areas by replacing CDEP wages with income support payments. ACOSS supports the retention of a wage-based CDEP program in remote areas with provision for 'top up'. The impact of the abolition of the Community Development Employment Program (CDEP) in non-remote areas should be monitored, particularly in a time of global financial crisis when unemployment is likely to increase. We welcome the commitment to converting CDEP positions supporting the delivery of Government services to properly paid jobs.

Mainstream employment services in remote and regional Indigenous communities should be redesigned in response to the specific labour market conditions and disadvantages faced by these communities and to better integrate them with community controlled local services, including by opening up more flexible pathways through the sequence of support, and providing a flexible pool of additional funds for investment in work experience that is better suited to the needs of the communities.

⁹ Lesley Russell at 6.

¹⁰ *Mid-Year Economic and Fiscal Outlook, 2008-2009* at 129.

Recommendation 12: Boost funding for Indigenous health

The commitment to provide comprehensive child and maternal health services to Indigenous Australians is welcomed. The Commonwealth 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 \$460 million per year.¹¹ The allocation of these resources should be determined in consultation with Indigenous community organisations.

Cost: \$460 million (\$500 million in 2010-11)

Recommendation 13: Expand children's services for Indigenous children and families

The 2008-09 Budget included a welcome \$16.6 million to develop Indigenous early childhood and parenting services for Indigenous children and their families. This was complemented by the announcement in October of an additional \$215.1 million over 4 years for 35 Children and Family Centres to be established in areas of high Indigenous population and disadvantage to deliver early learning, child care and family support programs. Remaining priority areas for budget expenditure include:

- (i) Programs and services to prevent child abuse and neglect and support families. Such services might include parenting education and support programs, family income and budget management, child nutrition programs, family relationship skills and mediation training, mentoring programs for boys, safe houses for women, counselling and therapeutic programs for victims of abuse and neglect and emergency accommodation

Cost: \$25 million (\$35 million in 2010-11)¹²

- (ii) Indigenous specific child care services and new multi-functional Indigenous specific child care services in areas of high need.¹³

Cost: \$8 million (\$10 million in 2010-11)¹⁴

¹¹ This is consistent with the Australian Medical Association's assessment of the necessary additional funding to 'Close the Gap' in Indigenous health outcomes.

¹² Total funding over four years of \$126 million including \$48 million in capital funding for new centres and renovations.

¹³ \$40 million over four years.

¹⁴ These recommendations are consistent with those made by the Secretariat of National Aboriginal & Islander Child Care Inc (SNAICC) in its 2008 *Federal Budget Priorities: Supporting child development and family wellbeing – preventing child abuse and neglect*, January 2008.

Recommendation 14: Establish an employment assistance system for Indigenous communities that is responsive to community needs and priorities

- (i) The number of fully funded jobs in local essential services in remote areas should be expanded considerably through relevant mainstream programs, in cooperation with local community-led organisations and State and local Governments.

Cost: \$70 million (\$80 million in 2010-11)

- (ii) Pre-employment work preparation training should be provided to eligible Indigenous Australians to the appropriate job standards of the relevant employing industry, to support the Australian Employment Covenant.

Cost: \$65 million (\$100 million in 2010-11)

Social Security

The number of unemployed people was projected in the Government's Budget review in November to increase by at least 150,000 over the next 18 months, and it is likely that this understates the extent of the economic and social problem that Australia now confronts.

A rise in unemployment often brings severe financial hardship to those affected, along with their families. One of the reasons for this is the very low level of social security payments for unemployed people. The base rate of Newstart Allowance for unemployed adults is \$225 per week, \$56 per week below the austere age pension rate. The payment for unemployed young people is \$178 per week. This is the result of historical anomalies between different social security payments.

The Henry Review of the tax-transfer system provides an opportunity to remove these anomalies and place social security payments on a firmer footing - an objective assessment of the minimum income needed by Australians of all ages to live decently. As an interim step, we recommend that the Government announce in the Budget that the gap between these allowance payments and pension levels will be halved.

Research recently released by ACOSS indicates that unemployed people and sole parents face a much higher risk of financial hardship than most other groups in the community. For example 57% of Parenting Allowance 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.¹⁵

Yet these social security recipients, along with those on Youth Allowance, are not entitled to a range of supplementary payments to help with essential expenses, including the \$500 per year Utility Allowance.

Low income families find that the cost of supporting dependent young people, including food, clothing and school expenses, rises substantially as they grow older. Yet the social security payments for these families often decline when the youngest child reaches 16 years. A major reason for this is that levels of Youth Allowance have not kept up with increases in Family Tax Benefits for younger children. This anomaly should be removed so that payments reflect the actual increases in costs faced by their parents as young people grow older.

¹⁵ ACOSS 2008, *Missing out, hardship in Australia*, ACOSS Info Paper – see www.acoss.org.au.

Recommendation 15: Increase Allowance payments for single people by \$30 per week

To ease hardship and halve the gap between base rates of allowances and pensions for single people, allowance payments for single people (including Newstart Allowance, Austudy Payment and the independent rate of Youth Allowance) should be increased by \$30 per week from 1 July 2009.

Cost: \$700 million (\$800 million in 2010-11)

Recommendation 16: Extend the Utilities Allowance to all workforce-age social security recipients

To provide equitable support for low-income households affected by rising utility prices, and as a first step towards a robust system of support to adapt to the higher costs associated with the national response to climate change, the Utilities Allowance should extend from Age and Disability Support Pensioners and Carer Payment recipients to recipients of workforce age social security payments generally, including Parenting Payment, Newstart Allowance, and Youth Allowance in the case of independent young people.

Cost: \$800 million (\$900 million in 2010-11)

Recommendation 17: 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 2009 by \$15 per week to reflect the higher cost of supporting these young people.

Cost: \$240 million (\$260 million in 2010-11)

Tax: Revenue recommendations to offset key expenditure recommendations

The tax 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. They include the use of structures such as private companies and trusts, and concessional tax treatment of large termination payments and executive share options. If these shelters and concessions were curbed this could finance most of ACOSS's recurrent expenditure recommendations and help restore the budget balance as the economy recovers from the present downturn. Given current economic circumstances and the need for a fiscal stimulus, we recommend that these revenue measures be introduced so that they take effect from the beginning of the 2010-11 financial year.

The tax treatment of superannuation contributions is complex and inequitable, providing a greater benefit per dollar saved for high income earners than for low and middle income earners, who are less likely to save in the absence of tax incentives. We recommend that these concessions be restructured in a revenue neutral way to improve their equity and efficiency.

The private health insurance rebate is an inefficient way to improve access to health services for those who need them most. In particular, the extension of the rebate to ancillary health care costs is costly and unlikely to have a significant impact on demand for public health services.

Recommendation 18: Replace existing tax concessions for superannuation with a fairer and simpler annual co-contribution

A two-tier co-contribution, paid annually into the relevant superannuation fund(s), should be introduced to replace all existing tax concessions and co-contributions for superannuation contributions. The co-contribution 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 savings for people on low incomes), plus 20% for additional contributions up to a higher flat annual ceiling (sufficient to encourage a modest level of saving beyond superannuation guarantee contributions 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 19: 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 income,¹⁶ or by applying the Capital Gains Tax to untaxed and concessional-tax income distributed to beneficiaries.

Revenue: \$400 million in 2010-11

- (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 2010-11

- (iii) Introducing a withholding tax on income that is not distributed by private companies to share-holders 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 2010-11

Recommendation 20: Lump sum payments by employers to individuals on the termination of their employment (other than superannuation, unused leave payments, and 'invalidity payments')

The special 'tax free thresholds' that currently apply to redundancy payments should extend to these payments and any income above those thresholds should be taxed at the employee's marginal tax rate rather than current tax rates for Eligible Termination Payments (15% or 30%).¹⁷

Revenue: \$150 million in 2010-11

¹⁶ 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 (iii)).

¹⁷ An extra tax free threshold will benefit many people on low incomes who lose their jobs, but high income earners with large termination payments would pay more tax because this threshold is lower than in the tax arrangements for these payments introduced last year.

Recommendation 21: Employee shares and rights

The income tax treatment of employee benefits in the form of shares and options should be changed to curb their use for tax avoidance purposes by high income-earners and companies as follows:

- (i) The FBT exemption for employee benefits in the form of shares or options should be restricted to the first \$1,000 per year of benefits provided to each employee pursuant to approved employee share schemes in which the majority of permanent employees are eligible to participate and benefits are offered in a non-discriminatory way.
- (ii) Benefits in the form of shares or options which fall below the \$1,000 per year threshold, or attract Fringe Benefits Tax, would not be taxed in the hands of employees.

Revenue: \$200 million in 2010-11

Recommendation 22: Remove Private Health Insurance Rebate for ancillary cover

The 30% Private Health Insurance Rebate should be removed from ancillary health cover from July 2009.

Revenue: \$1,000 million in 2010-11

Recommendation 23: Cost benefit analysis of tax expenditures

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

- (iii) Grouping them together with equivalent direct expenditures in Budget Papers.
- (iv) Incorporating tax expenditures in any expenditure caps.
- (v) Assigning expenditure to relevant departments for annual expenditure review purposes, with input from the Finance and Treasury departments.
- (vi) Extending its reporting in the annual Tax Expenditures Statement to include analysis of the distributional impact of major personal income tax concessions.

Revenue: \$500 million in 2010-11

Recommendation 24: Remove Tax Breaks for Four Wheel Drive Vehicles

Import tariffs for four wheel drive vehicles used as family cars should be imposed at the same rate as for other passenger motor vehicles, unless the vehicle is predominantly used for primary production and other genuine off road business purposes.

Revenue: \$200 million in 2010-11