Australian Council of Social Service

2013-14 Budget Priority Statement

Recommendations for the 2013-14 Federal Budget

ACOSS Paper 196

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

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CONTENTS

Overview

In this submission, ACOSS outlines policy recommendations for consideration by the Federal Government in its 2013-14 Budget.

The submission aims to take the opportunity presented by the temporary deferral of the Government's Budget surplus target to put us on a more sustainable, fairer and inclusive footing on which to build as global economic conditions improve. In particular, it aims to address the most glaring unmet social needs while strengthening the fiscal base and building the role of the community sector as a key part of a resilient economy and inclusive society.

The savings that we propose in this submission not only more than fully fund our new expenditures, but begin the work that remains to be done to strengthen the Budget for the future.

Despite faring well during the global economic downturn, the Australian economy has not performed as well as expected over the past year. The slowing of the mining boom has exposed weaknesses in other parts of the economy, such as manufacturing, retail and housing. Slowing mining profits and investment, in the absence of another sector (e.g. housing) picking up the slack, are beginning to slow the overall economy, leading both to lower Government revenue and a tightening jobs market. Given this, ACOSS welcomed the decision to defer the Government's proposal to restore the Budget to surplus, in order to maintain vital expenditure commitments.

There are also positive recent signs of improvement, such as strengthening commodity prices and improvements in major economies around the world.

However, at this time the state of the economy makes the policy objectives ACOSS has identified for this Budget even more important: ensuring that those who are already disadvantaged in the labour market do not also suffer poverty because of the low rate of Allowances and have access to jobs; undertaking effective tax reform to achieve a sustainable revenue base for an aging population and roll back unfair tax breaks for people on higher incomes; improving affordability in areas such as housing and energy; and improving life chances and health outcomes for poor families and individuals. It is equally important to strengthen the capacity of the community sector to deliver vital community services, ensuring that the sector, which is a major employment generator, has an equal role with the private sector in key decision-making and is fully involved in major national processes designed to support industry and innovation, as well as community wellbeing.

We welcomed many aspects of the last Budget and subsequent policy announcements which have made a substantial start to deliver on a number of the measures ACOSS has argued were urgent to ensure that none are excluded from the benefits of economic growth and prosperity and from full participation in society. These include the Dental Health Reform Package for people with low incomes, improvements to health policy frameworks, such as reform of means testing for private health insurance, introduction of the National Disability Insurance Scheme, investment in Mental Health, funding of Education reform and the contribution to funding the cost of the Equal Pay decision to increase the wages of workers in social and community services. But significant gaps remain.

The most pressing and most glaring is the inadequacy of the base rate and indexation of social security payments including the single rate of Newstart Allowance, Youth Allowance and other allowances, and the parallel inadequacies of the employment service system intended to support people. We strongly opposed the decision in the last Budget to move another 120 000 sole parents onto Newstart until its adequacy has been addressed. Other pressing gaps include the worsening shortage of affordable housing, targeting family payments to families at risk of poverty, and increased wage subsidy places for very long term unemployed people.

The Government's prudent recognition that, in the current circumstances, spending for the future justifies a later return to surplus is likely to, once again, position Australia well as the global economy gradually recovers and commodity prices begin to improve. We support such a Budget strategy and believe that it is also the time to ensure that the remaining priority measures needed to build an inclusive and resilient community are not half done.

While this will require significant public investment, ACOSS has for some time argued that the remaining part of the Budget strategy must include more comprehensive reform of unfair and inefficient tax breaks and wasteful expenditure, together with revenue strengthening reform.

We propose that modest additional expenditures of the order of $3,650 million in 2013-14 ($4,950 million in the following year) in key priority areas be funded by such reforms, saving an estimated $3,700 million in 2013-14 and $5,700 million in 2014-15.

This Budget strategy would lay the foundations for more sustainable Budget spending, a future return to surplus and a fairer and more efficient tax system in future years, as well as promoting social inclusion.

Proposed new expenditures, which altogether would cost an estimated $3,646 million ($4,951 million in 2014-15), include the following:

- Raise the level of payments for Newstart Allowance, Youth Allowance and other Allowance payments for single adults and young people living independently of their parents by $50 per week as recommended by the Henry Report ($600 million) ($1,500 million in 2014-15).
- Index all Allowance payments to wage movements ($200 million) ($300 million in 2014-15).
- Restructure family payments to target families at risk of poverty and simplify the family payments system (Revenue neutral).
- Double the number of wage subsidies available for very long term unemployed people to 20,000 places per year and substantially boost the resources available to Job Service Australia providers to work intensively with this group from present inadequate levels (which fund an interview every two months plus $100 a month for training and work experience) ($130 million) ($180 million in 2014-15).
- Establish an Affordable Housing Growth Fund to expand the stock of affordable housing, with a down-payment of $750 million in the first year and increased and sustained long term ongoing funding, and increase the maximum rate of Commonwealth Rent Assistance by 30% (around $15 per week) to assist people on low incomes to meet rising rental costs ($718 million).
- Invest in capacity for community health services to engage with key health policies, including the establishment of Medicare Locals and the Partners in Recovery framework, as a key element of building the role of community health services to help reduce inefficiencies in the health budgets from preventable hospital admissions ($80 million).
- Invest in the capacity of the community sector to deliver services and engage in national industry initiatives by: properly indexing community service contracts to a standard index to improve the contracting environment for government-funded services; funding an Industry Plan for the community sector; and establishing a Community Sector Adaptation Fund to support climate change adaptation and extreme weather preparedness projects undertaken by community sector organisations ($366 million).

Much still remains to be done to remove a number of poorly targeted direct spending and tax expenditures introduced over the past decade. The following expenditure saving and revenue measures would cut waste and implement key Henry Report proposals to raise tax more efficiently in the future. Altogether they would raise $3,700 million in 2013-14 ($5,700 million in 2014-15):

- Remove the 30% private Health Insurance Rebate for ancillary cover ($1,000 million).

- Reform the tax treatment of private trusts to stem their use to avoid personal income tax obligations ($1,000 million in 2014-15).
- Curb the avoidance of personal income tax by 'churning' income through superannuation funds, by reducing the caps for concessional contributions by the amount of any benefit paid during that year ($500 million in 2014-15).
- Reduce opportunities for international companies to reduce tax paid in Australia by increasing the debt levels of their Australian entities ($600 million) ($700 million in 2014-15).
- Certain Capital Gains Tax concessions exclusively for small business should be removed. ($1,000 million) ($1,100 million in 2014-15).
- Tax expenditures should be intensively reviewed each year by the Treasury and Expenditure Review Committee and poorly targeted tax deductions and offsets such as the tax offset for Senior Australians, the Medical Expenses Tax Offset, and 'grandfathered' tax concessions for some termination payments, should be reformed or abolished ($900 million) ($900 million in 2014-15).
- Cap the tax deduction for self-education expenses ($200 million) ($300 million in 2014-15).

In addition, we recommend (in line with the Henry Report[1]) that the following poorly targeted tax concessions and direct expenditures be replaced by better-designed programs to improve assistance for those who need them most and to simplify them, at no cost to public revenue:

- Tax concessions for superannuation contributions should be restructured to make the system fairer and simpler, in conjunction with the proposed increase in Superannuation Guarantee contributions. This reform would roughly double the gains in retirement incomes for low income earners from higher compulsory contributions. It would cap poorly targeted tax breaks for the top 20% of taxpayers, who currently receive half of the benefits of $16 billion in annual tax concessions for superannuation contributions.

- A universal minimum level of Child Care Benefit should be introduced and the maximum rate of Child Care Benefit should be increased to better reflect child care needs, reasonable costs and capacity to pay. This reform should be funded by savings from removing the Child Care Rebate. This would increase subsidies for low and middle income families facing the highest costs and reduce the regressivity of present subsidies for 'gap fees'.

[1] Henry, Ken (2009): *Australia's Future Tax System: Report to the Treasurer* Canberra, Australia http://www.taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm

Summary of Recommendations

	Cost	Saving
COMMUNITY SERVICES (p 8)		
Recommendation 1: Ensure that funding for community services includes adequate price indexation.	$336 million ($348 million in 2014-15)	
Recommendation 2: Increase the maximum rate of the Child Care Benefit, and introduce a universal minimum level of Child Care Benefit whilst removing the Child Care Rebate.	Revenue neutral	
COMMUNITY SECTOR DEVELOPMENT (p 11)		
Recommendation 3: Implement an industry development plan to maintain and develop community services into the future	$20 million ($30 million in 2014-15)	
Recommendation 4: Establish a Community Sector Adaptation Fund to adapt to climate change risks	$10 million ($10 million in 2014-15)	
Recommendation 5: Extend deductible gift recipient status to charities whose purpose is for the public benefit	$650 million ($700 million in 2014-15)	
EMPLOYMENT, EDUCATION & TRAINING (p 15)		
Recommendation 6: Improve employment assistance for people who are long term unemployed	$100 million ($150 million in 2014-15)	
Recommendation 7: Expand the wage subsidy scheme for people who are long term unemployed	$30 million ($30 million in 2014-15)	
HEALTH (P 18)		
Recommendation 8: Invest in capacity for community services to engage with key health policies	$80 million ($85 million in 2014-15)	
Recommendation 9: Remove the 30% private Health Insurance Rebate for ancillary cover		$1,000 ($1,200 million in 2014-15)

	Cost	Saving
REDUCING HOMELESSNESS & IMPROVING HOUSING INFRASTRUCTURE (p 20)		
Recommendation 10: Ongoing funding for the National Partnership Agreement on Homelessness with adequate indexation	$115 million ($120 million in 2014-15)	
Recommendation 11: Improve the adequacy of National Affordable Housing Agreement indexation	$3 million ($10 million in 2014-15)	
Recommendation 12: Double funding for HOME Advice and Reconnect programs	$34 million ($35 million in 2014-15)	
Recommendation 13: Establish a long term Affordable Housing Growth Fund	$750 million ($900 million in 2014-15	
Recommendation 14: Increase the funds for the National Rental Affordability Scheme	Revenue neutral (no additional cost until 2016)	
Recommendation 15: Review Commonwealth Rent Assistance and increase the maximum rate	$718 million ($733 million in 2014-15)	
SOCIAL SECURITY (p 26)		
Recommendation 16: Increase Allowance payments for single people by $50 per week	$600 million ($1,500 million in 2014-15)	
Recommendation 17: Index Allowance payments annually to movements in earnings	$200 million ($300 million in 2014-15	
Recommendation 18: Restructure family payments to target families at risk of poverty	Revenue neutral	

	Cost	Saving
TAX (p 32)		
Recommendation 19: Replace existing superannuation tax concessions and the proposed Government superannuation contribution with a superannuation rebate	Revenue neutral	
Recommendation 20: Curb the use of private trusts to avoid personal income tax		$0 ($1,000 million in 2014-15)
Recommendation 21: Curb the avoidance of personal income tax by 'churning' income through superannuation funds		$0 ($500 million in 2014-15)
Recommendation 22: Reduce opportunities for international companies to reduce tax paid in Australia by increasing the debt levels of their Australian entities		$600 million ($700 million in 2014-15)
Recommendation 23: Remove Certain Capital Gains Tax concessions exclusively for small business		$1,000 million ($1,100 million in 2014-15)
Recommendation 24: Intensively review tax expenditures annually & reduce or remove poorly targeted tax expenditures		$900 million ($900 million in 2014-15)
Recommendation 25: Cap the tax deduction for self-education expenses		$200 million ($300 million in 2014-15)
TOTAL	**$3,646 million ($4,951 million in 2014-15)**	**$3,700 million ($5,700 million in 2014-15)**

1 Community Services

Community services in the not-for-profit sector have been the subject of major reforms over the past year. The not-for-profit reform agenda has significant implications for almost 60,000 charities in Australia, many of whom provide vital support for the health and welfare of all Australians. At the outset, one of the main drivers of the sector's support for this agenda was the framing of these reforms in the context of reducing 'red tape', the burden of unnecessary and duplicative reporting requirements. For charitable community services, the bulk of this burden lies in the contracts they enter into for funded services. The reduction of this burden, freeing up the capacity of services to focus more attention on the people and communities who rely upon them, must continue to drive social policy and government spending.

The other major reform affecting community services this year has been the implementation of the Fair Work Australia decision to increase the award rates for community sector and disability workers through government-funded services. While the Commonwealth's commitment to fund services covered by the ERO was warmly welcomed by ACOSS, the true picture of the adequacy of funding by all governments is only now becoming clear and is not completely comforting. While governments including the Commonwealth may be able to justify their funding commitments, the reality is that an outcome that results in service reductions and job losses will be bad for people and communities.

In the meantime, ACOSS continues to see the policy settings around contracting of community services as a critical priority for reform. Great inroads have been made in some areas, particularly in those Departments that have moved from one-year to three-year contracts for funded services; and there are some examples of good practice in terms of negotiation and adequacy in Commonwealth Government contracts with community services. But on the whole, this landscape continues to be dominated by uncertainty of timing as to when contracts will be up for negotiation and who will be funded; and inadequacy in terms of meeting the full costs of delivering funded services. Even where government intends to cover only partial cost of delivering services, that is rarely made explicit through the contract process.

Beyond base levels of funding, the failure to pay adequate rates of indexation has resulted in the erosion of government funding for community services over many years. ACOSS' *Australian Community Sector Survey 2011* found the following average rates of indexation for government-funded community services[2]:

[2] ACOSS (2011) *Australian Community Sector Survey*, http://acoss.org.au/images/uploads/ACSS_2011_Report_Volume_1_National.pdf.

Average rates of indexation (%), government funding for community services, 2011	
Commonwealth Government	1.30
State or territory government	2.32
Local government	1.05

These averages are significantly lower than basic CPI (Consumer Price Index), much less the pressure of rising wage and utility costs that are increasingly undermining the viability of services. Moreover, the Commonwealth Government does not have a consistent or adequate approach to indexation for community services even within its own Departments, further undermining the capacity of services to Budget and plan properly.

Until and unless the contracting environment through which government-funded services is improved, the value and effectiveness of this vital sector will continue to erode. As importantly, major gains such as those in the equal pay case will be lost as services fall back into a situation where they cannot maintain equal wages for their workforce.

ACOSS again proposes that the Wage Price Index, when greater than the CPI for the same period, be used as the primary index for annual funding adjustments as it more accurately measures cost inflation faced by organisations. 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.

Finally, the current system of child care payments is complex and inequitable. There are different payment types for low and higher income families and, by international standards, low levels of spending on child care overall. The Child Care Rebate (CCR) is inherently regressive as it covers part of the gap fee between income-tested Child Care Benefit and fees charged. In addition, the level of subsidy available for low income families is generally not sufficient to finance quality care.

Recommendation 1: That the Government ensure that funding for the delivery of community services includes adequate price indexation.

A standard rate of indexation applied to Commonwealth contracts with the not-for-profit social service sector will go towards the consistent and adequate funding of community services.

Cost: $336 million in 2013-14[3] ($348 million in 2014-15)[4]

Recommendation 2: Increase the maximum rate of the Child Care Benefit, and introduce a universal minimum level of Child Care Benefit.

The maximum rate of Child Care Benefit should be increased to better reflect the actual costs of providing quality care. This should be funded by the removal of the Child Care Rebate, which would then be replaced with a universal minimum rate of Child Care Benefit.

Cost: Revenue neutral[5]

TOTAL COST: $336 million ($348 million in 2014-15)

[3] This figure is based on data from several key cost areas: the Child Care Benefit, the Child Care Tax Rebate, DoHA Residential Care funding, DEEWR Job Network and other employment program funding, and the Disability and HACC SPPs.

[4] Reflects inflation at rate of 2012 wage price index.

[5] Savings from removal of the Child Care Rebate should be re-directed towards establishing a minimum rate of Child Care Benefit and increasing the maximum rate.

2 Community Sector Development

The not-for-profit sector makes up over 4% of GDP and around 8% of employment in Australia.[6] These figures come from the 'economically significant' part of the sector, much of which is constituted by charities and community services. In addition, the healthcare and social assistance sector continues to show strong current and projected growth, making it one of the 'engine rooms for employment over the past five years'.[7]

Yet, for one of Australia's major industries, the community sector continues to lag behind others in terms of industry planning, funding and integration with the major economic as well as social debates of our time. Indeed this sector is rarely conceived of as an industry at all, relegating it further away from the policy and funding processes that ought to be prioritising its sustainability for effectiveness. Meanwhile, the annual Australian Community Sector Survey routinely indicated high levels of unmet demand for some of the most basic and essential community services, including housing, mental health and legal support.[8]

Elements of this work are already underway, such as the identification of vocational and work-based training needs by the Community Services & Health Industry Skills Council. Yet the lack of a developed workforce strategy, mapping program areas and population needs and identifying training and other barriers to the sector's capacity, shows how far the community sector is lagging in terms of industry development. Existing elements need to be integrated with national planning and coordination to develop reliable projections about the growth in demand for community services; and to respond to those projections with an industry plan that will produce the skilled workforce necessary to meet demand into the future. The development of the community sector is in the national interest and should be a priority for both its social and economic value.

The development of a Plan will require a systematic approach, including initial planning and evolution over time. $20 million in seed funding for the first year should be added to incrementally over the forward estimates, bringing the funding for the Plan to $150 million within 5 years.

The community sector has also been overlooked in the national approach to climate change adaptation and extreme weather preparedness. Examples include the

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[6] Office for the Not-for-profit sector, Department of Prime Minister and Cabinet, http://www.notforprofit.gov.au/about-us/about-us-page-1, accessed 6 December 2012.
[7] 'Services head up the new boom', David Crowe, *The Australian*, 7 August 2012, http://www.theaustralian.com.au/national-affairs/industrial-relations/services-head-up-the-new-boom/story-fn59noo3-1226444278225, accessed 6 December 2012.
[8] ACOSS (2012) *Australian Community Sector Survey*, http://www.acoss.org.au/images/uploads/ACOSS_ACSS2012_FINAL.pdf.

omission of people and communities from the Australian Government's 2010 position paper *Adapting to Climate Change in Australia* (the six areas identified for priority action are: water, coasts, infrastructure, natural ecosystems, disaster management and agriculture); and the omission of social and systemic barriers from the Productivity Commission's 2012 draft report into *Barriers to Effective Climate Change Adaptation.* The community sector was also initially sidelined from the Federal Government's Flood Taskforce following the Queensland floods in 2010-11. While we commend the recognition of the critical role that non-government organisations play in disaster resilience in the Federal Government's *National Strategy for Disaster Resilience,* the ongoing failure to adequately resource the community sector to prepare for climate change and extreme weather impacts remains of concern because the people to whom it provides essential social services – those experiencing poverty, disadvantage and inequality – will be first and worst affected by climate change: they have the least ability to cope, to adapt and to recover.

In 2012, ACOSS conducted original research into the vulnerability of the community service sector to climate change and extreme weather impacts with funding from the Commonwealth Department of Climate Change and Energy Efficiency (DCCEE) via the National Climate Change Adaptation Research Facility (NCCARF), which is due for publication in March 2013. Preliminary findings from the project suggest that organisations within the sector are extremely vulnerable and not well-prepared to respond to these impacts and that the consequences of the climate-driven failure of social service delivery for the clients and communities they support are serious. Despite the risks, community service organisations face significant barriers to adaptation, particularly a critical lack of resources to invest in risk management and capacity building activities.

To ensure the sustainability and effectiveness of community-based social service provision over the long-term and particularly in response to increasingly frequent and intense extreme weather events as well as incremental changes in the climate, we recommend the creation of a Community Adaptation Fund. The fund should provide $50 million over five years to support sector-specific capacity building projects, including: undertaking risk assessments and business continuity, adaptation and disaster management planning and implementation activities; training and skills development programs; building effective intra-sector networks and partnerships with emergency service agencies at the local, state and national levels; and developing benchmarks and metrics to measure the progress of individual organisations and the sector as a whole towards preparedness. To ensure the best results, it should operate as a cross-government initiative, drawing on the expertise of the Attorney General's Department, the Department of Health and Ageing and the Department of Climate Change and Energy Efficiency, as well as the line agency expertise of the Department of Human Service and the Department of Families, Housing, Communities and Indigenous Affairs. The operation, effectiveness and future prospects of the fund should be reviewed after 5 years.

Another key area of sector development is the capacity of charities to ensure adequate income to support their activities. While charitable community services are often engaged in funding relationships with government, the capacity to attract non-government funding is vital to the sector's ability to identify and meet needs not being met by government. It is also a central element of maintaining a vibrant and independent non-for-profit sector. Currently, one of the major barriers to attracting key forms of non-government funding, such as philanthropic funding, is the restricted access to deductible gift recipient status. Changemakers Australia has found that the absence of DGR status is often a barrier to philanthropic funding, even though there is no legal basis to determine philanthropy based on this form of tax status. We recommend extending DGR to those charities whose dominant purpose is altruistic and for the public benefit. The Productivity Commission's 2010 report on the contribution of the not-for-profit sector[9] estimated the value of extending DGR to charities, excluding religious and education institutions, as $630 million. Although this work is out of date by up to five years, we estimate similar costs as all indications are for a continued fall in charitable giving, due to a decline in charitable donations over the GFC and not having returned to pre-GFC levels.

Recommendation 3: The Government should implement an industry development plan to ensure we maintain and develop the community services Australia needs now and into the future.

The purpose of the plan is to provide an integrated, nationally coordinated framework to identify and meet the demands on community services now and into the future.

Cost: $20 million in 2013-14 ($30 million in 2014-15)

Recommendation 4: The Government should establish a Community Sector Adaptation Fund

The purpose of the fund is to capacity building projects for community services to prepare for and adapt to direct and indirect climate change risks, including extreme weather events and natural disasters.

Cost: $10 million in 2013-14 ($10 million in 2014-15)

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[9] Productivity Commission (2010): *Contribution of the not-for-profit sector* Canberra http://www.pc.gov.au/__data/assets/pdf_file/0003/94548/not-for-profit-report.pdf

Recommendation 5: Extend deductible gift recipient status to those charities whose dominant purpose is altruistic and for the public benefit.

This gives effect to beginning the staged process of extending DGR as recommended by the Productivity Commission in 2010.

Cost: $650 million in 2013-14 ($700 million in 2014-15)

TOTAL COST: $680 million ($740 million in 2014-2015)

3 Employment, Education and Training

Unemployment is likely to rise in 2013 as the effects of a slowing economy work their way through the labour market. While unemployment is still low by OECD standards, the majority of unemployment payment is now unemployed long term (over 12 months) and it will harder to secure employment for them when unemployment is rising. Prolonged joblessness is socially corrosive, leading to severe health problems, family breakdown and the entrenchment of social exclusion in the worst affected communities.

In theory, the Job Services Australia (JSA) employment services system targets the most help towards the most disadvantaged jobseekers by paying providers higher fees to assist those in the highest 'streams' of assistance. A major weakness is that after 12 months of unemployment, most people will be offered a lower level of assistance because the 'Work Experience phase' is seriously under-resourced, as confirmed in a recent OECD report on Activation in Australia[10]. Each unemployed person entering work experience attracts just $500 in Employment Pathway Funds to purchase six months of work experience or training, together with funding for an interview every two months (up to $700 per year).

This is counterproductive as the evidence suggests the impact of intensive investment in employment assistance is greater for people unemployed long term. We propose that fees for the 'Work Experience phase' be approximately doubled, to the same level that applies to Stream 3 jobseekers in their first year of unemployment, as a first step to rectifying this problem. This means that the level of provider resourcing for long term unemployed people would be roughly equivalent to that for those assessed as most at risk of long term unemployment. In this way, assistance would be targeted to the most disadvantaged without providing incentives to providers to delay assistance until later in the unemployment spell.

In the 2010 Budget, the Government doubled Employment Pathway Fund credits for very long term unemployed people (in their second year of unemployment) to $1,000, but this has to finance 11 months of compulsory activity (up from 6 months previously - an average funding level of $100 a month). This investment is inadequate to overcome the barriers to work of people unemployed long term. The kinds of programs that can be bought with this level of funding represent 'activity for activity's sake'. As a result, there is a risk that the efforts of providers will be diverted to compliance activities instead of offering this group of highly disadvantaged jobseekers the positive engagement and employment assistance they need. It is noteworthy that the previous 'Full Time Work for the Dole' program, on which this initiative appears to be modelled attracted very few jobseekers because employment service providers

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[10] OECD (2012) *Activating jobseekers, how Australia does it* Paris, France.

had a choice whether to refer very long term unemployed to the program. They chose not to in the vast majority of cases because they judged that they could achieve better employment outcomes by keeping them closely engaged with their employment consultants rather than referring them to a program that might distance them from the labour market.

A period of paid work experience in regular employment can significantly improve the job prospects of long term unemployed people. It can do so by reassuring employers that the jobseeker is capable of undertaking the work, and in the case of more disadvantaged jobseekers, by boosting their confidence, essential on-the-job skills and job search networks. One problem with previous programs of this kind is that they emphasised the filling of program quotas rather than employment outcomes. A further difficulty is that insufficient attention was paid to the transition from subsidised to unsubsidised employment. The most effective paid work experience programs are carefully targeted towards long term unemployed people (whose job prospects are relatively poor without assistance of this kind); and designed to transition them into mainstream employment and keep them engaged in job search rather than simply providing temporary work. International examples include 'transitional jobs' schemes in the UK and US; the former Supported Work Demonstration Program in the US; and the Danish work training scheme that combines paid work experience and training.

A wage subsidy scheme has been reintroduced for 'very long term' unemployed people. This program will be administered by JSA providers, and targets jobseekers unemployed for 24 months or more. It provides a subsidy roughly equivalent to Newstart Allowance for up to six months (12 months on a pro-rata basis in the case of jobseekers with a part time work requirement) for wages paid by a private sector or local Government employer on commencement of employment. These subsidies are designed to encourage employers to give very long term unemployed people a chance to demonstrate their capacity to perform the job. If carefully targeted and administered, similar programs in Australia and overseas have significantly boosted the job prospects of long term unemployed people at a cost that is little more than the unemployment benefit they would have been paid in the absence of the program. However, only 10,000 wage subsidies per year are available. When a similar wage subsidy scheme was introduced in 2006, take up was low among employment service providers because the administrative cost exceeded the potential benefits of such a scheme when implemented on a small scale. We therefore propose that the scheme be scaled up substantially by doubling the number of places.

Recommendation 6: Improve employment assistance for long term unemployed people

1) The resources available to JSA providers to assist long term unemployed people in the Work Experience phase should be bolstered by replacing the current fees paid to providers in that phase with those paid in respect of Stream 3 jobseekers in their first year of unemployment (currently up to $1,100 in annual service fees and $1,100 in annual Employment Pathway Fund credits).

2) The period of compulsory work related activity for people in their third year of unemployment should be reduced from 11 to six months, without reducing the additional funding for this via the Employment Pathway Fund.

Cost: $100 million ($150 million in 2014-2015)

Recommendation 7: Expand the wage subsidy scheme for people who are long term unemployed

1) The number of wage subsidies available for very long term unemployed people should be doubled in 2013-14 to 20,000 places per year.

Cost $30 million ($30 million in 2014-15)

TOTAL COST: $130 million ($180 million in 2014-2015)

4 Health

The past year has seen a number of significant improvements in the interests of equity to the policy framework surrounding health services and funding by the Commonwealth Government. The reform to the means testing of private health insurance was a major step towards a more equitable and sustainable health system. ACOSS had long argued that having low income earners, who cannot afford private health insurance themselves, subsidise the health insurance of those who can afford was unfair, unsustainable, and an inefficient use of Federal funds that ran counter to the principles of a universal health system.

This important reform was followed by the announcement of the Dental Health Reform Package, another reform long-advocated for and strongly welcomed by ACOSS. The reform will secure adequate dental care for two-thirds of the children in Australia, many of whom would go without regular dental care otherwise; and a commitment to meet the oral health needs of adults experiencing poverty and inequality, who have gone without dental care for too long. Perhaps most importantly for ACOSS, the reform was a major structural change that provided a policy framework through which we can begin to work towards universal dental care in Australia. However it has also resulted in cut-backs to current services particularly through the closure of the Medicare Chronic Diseases Dental Scheme, which will impact immediately and significantly on people experiencing poverty and inequality. While the long term policy gain is a significant improvement, there is more work to be done in securing affordable and timely access to the dental services and oral health that everyone in Australia should be able to access.

The ongoing implementation of the national health reform agenda continues to be the main focus of activity in the interests of equitable and effective health in Australia. The greatest chance to reduce inefficiencies in the health Budget, including the significant drain that comes from mounting hospital costs and preventable hospital admissions, lies in implementing adequate and appropriate community-based health services that are integrated and coordinated with communities and their existing services. It is vital that community services are incorporated within the implementation of Medicare Locals and primary health strategies; and that their capacity to support these reforms is adequately resourced.

To date, we have not seen this recognised in the priorities for funding to sustain these important reforms and this needs to be a key direction for future funding. A notable exception here is the Partners in Recovery framework for chronic and persistent mental illness, which has provided strong direction on collaborative approaches across health and community services as a critical element of implementation.

ACOSS has previously recommended $1,200 million to fund a national, comprehensive, community-based primary health care program. Given the commitments within the national health reform agenda and the consequent funding investment in recent years, our priority is to ensure that community services are able to engage effectively with the implementation of Medicare Locals and frameworks such as Partners in Recovery.

Recommendation 8: Invest in capacity for community services to engage with key health policies

This includes the establishment of Medicare Locals and the Partners in Recovery framework.

Cost: $80 million ($85 million in 2014-15)

Recommendation 9: Remove the 30% private Health Insurance Rebate for ancillary cover

Saving: $1,000 million ($1,200 in 2014-15)

TOTAL COST: $80 million ($85 million in 2014-2015)

TOTAL SAVING: $1,000 million ($1,200 million in 2014-2015)

5 Reducing homelessness and improving housing infrastructure

The Government has made important - indeed historic - policy and funding commitments to improve the availability of affordable housing and reduce homelessness in Australia.

Notwithstanding this investment, homelessness remains a serious social problem in Australia and one which needs ongoing investment and support if it is to be reduced over time. We need a spectrum of effective responses, including prevention and early intervention service responses; a strong social housing system; and support for people to survive in private rental and accessible services for families, older Australians and young people to prevent them tipping over into homelessness. Crisis accommodation needs to be accessible and available immediately to people who experience homelessness, in particular women and children escaping domestic and family violence and young people. Housing-led solutions also need to be available to ensure we can resolve homelessness as quickly as possible after it occurs. At the other end of the spectrum, permanent supportive housing models need to offer people who have experienced long periods of homelessness the chance to secure a place to call home and participate in community life.

The Government has committed to providing funding for a 12 month extension to the National Partnership Agreement on Homelessness (NPAH) from 1 July 2013 – 30 June 2014, i.e. the entire Budget cycle, pending matched funding from the states and territories. Adequate indexation of the funding is vital to ensure services and programs remain viable.

The other major source of funding for homelessness services is the National Affordable Housing Agreement (NAHA), an ongoing agreement that has no nominal expiry. The current iteration extends to 1 January 2014 (half way through the Budget cycle). If not re-negotiated, it will continue as is with indexation applied at a rate of just over 1.8%. A more realistic indexation level would be appropriate to enable specialist homelessness services to meet demand.

Specialist homelessness services must be provided with adequate and planned indexation to enable them to meet the true costs of service delivery now and into the future. The current agreements for both HOME Advice and Reconnect services expire on 1 July 2013. While we believe these will be renewed, we call for their expansion. Both programs are supported by a robust evidence base that developed over many years through successive evaluations as well as the ongoing Participatory Action Research Component. Despite this there is a view within the sector that both programs, in particular Reconnect, continue to be treated as if they are pilot programs and are not afforded the funding or funding surety necessary for effective coverage and service planning.

The situation is similar in housing: while we have welcomed much-needed investment in recent years, even maintaining current levels of investment will not address the projected increase in demand, let alone the 2020 homelessness targets.[11] Australia's housing is among the most expensive in the world. Rents and mortgages are the biggest source of financial stress in many households. More than a million people on low incomes continue to experience housing stress, with housing costs exceeding 30% of household income.[12] The majority of those in housing stress are in private rentals. 65% of people on low incomes who are in private rentals experience housing stress, with many of these households spending over half of their income on rent.

Over the decade from 1995 to 2006, Australia experienced a decline in public housing stock of approximately 25,000 dwellings, offset only in part by some increase in community housing.[13] Yet, there have been no major policy commitments since 2010 to address housing affordability or reduce homelessness. The emphasis has shifted to reforming housing assistance programs to make better use of private rental and on growing the community housing sector through a combination of stock transfer and leverage of private finance. ACOSS supports this direction as a partial means of growing affordable housing supply.

We need to establish an Affordable Housing Growth Fund in order to expand the stock of affordable housing, with a long term funding strategy attached to the Fund. The National Rental Affordability Scheme (NRAS), which directly encourages investment in new affordable flats and houses, should also be expanded. The Rudd Government had committed to doubling NRAS if the scheme proved to be a success as an important means for expanding low cost rental housing.

The recently released KPMG review of the social housing initiative has highlighted both the economic multiplier and social policy benefits of the social housing initiative within the Economic Stimulus Nation Building Plan, as indicated in the table below.[14] The report reinforces ACOSS' view that investment in social and affordable housing is a productivity issue as well as good social policy.

[11] Prime Minister, House of Representatives Hansard, Tuesday 3 February, pg 11-12

[12] Ryanti Miarant and Binod Nepal (2008) *Housing Stress in Australia 2007* National Centre for Social and Economic Modelling, University of Canberra.

[13] Australian Institute of Health and Welfare (2008) *Australia's Welfare 2007*, at 237

[14] Housing Ministers' Advisory Committee, Social Housing Initiative Review Advisory September 2012

Economic Measure	Review Finding
Additional construction activity	Approx. $1.5b per annum on average over the life of the SHI
Multiplier through the economy	For every $1 spent an additional $0.30 in turnover was generated in the economy
Value added (additional value in terms of wages and profit in each industry)	$730m on average for the construction industry over the life of the SHI
Average annual value added (GDP)	$1.1b on average over the life of the SHI – approximately 0.1% of Australian GDP increase over the life of the SHI

The KPMG review strengthens the argument to boost housing supply through another round of spending on social housing programs in Australia. Despite some recent improvement in house price affordability, the building industry still lags, and with construction and land costs now lower than in 2009 further investment over the forward estimates would reap greater benefits.

The building industry has been greatly assisted by stimulus to social housing and through NRAS. Further spending would support the housing sector generally as well as rebuilding the supply of affordable housing and further developing the community housing sector in Australia. There has been demand from all parts of the industry: builders, investors and providers for greater certainty and predictability about the future of NRAS and the development of the community housing sector. Further investment in the forward estimates would provide assurance about a pipeline of projects and reinforce growing investor confidence in NRAS and affordable housing investment. An additional 50,000 properties under NRAS would be sequential to the existing NRAS which is not due to be fully allocated until 2016. Therefore this recommendation involves no cost for this year's Budget. However this is a key element to planning certainty, assuring investors of the timeline they have to build a portfolio. The ideal rollout timeframe would be 2016 -2021.

We further recommend an affordable housing growth fund be established, in addition to and as part of the ongoing NAHA payment, of $6,000 million over 5 years. The growth fund could contain a mix of Commonwealth Government and leveraged private sector investment.

In the current market, Commonwealth Rent Assistance (CRA) remains an important, though inadequate, measure to improve housing affordability. Assessing CRA's adequacy and maintaining its parity through adequate indexation remains a priority for ACOSS and the approximately one million people relying upon this payment.[15] Yet the extent to which the benefits of increases in CRA shift from tenants to landlords is not known and is likely to vary between different housing markets and different Rent Assistance changes. We therefore propose a housing affordability package that combines an increase in investment in public and non-profit housing to improve the supply of low cost housing over the medium term with a modest increase in CRA to relieve financial hardship among low income households already paying high private rents.

Recommendation 10: Ongoing funding for the NPAH with adequate indexation

That the NPAH is funded on an ongoing basis with indexation equivalent to either the Consumer Price Index or the Wage Price Index, whichever is higher.

Cost: $115 million in 2013-14* ($120 million in 2014-15)

*Excludes funding for *A Place to Call Home.*

Recommendation 11: Improve the adequacy of NAHA indexation

That the NAHA be indexed to the level of the Consumer Price Index on an ongoing basis.

Cost: $3 million* ($10 million 2014-15)

* Additional indexation for 6 months, to cover NAHA from 1 January - 30 June 2014.

Recommendation 12: Double funding for HOME Advice and Reconnect programs

That funding for HOME Advice and Reconnect is doubled to strengthen homelessness prevention and early intervention.

Cost: $34 million in 2013-14 ($35 million in 2014-15)

[15] As at 8 June 2007, there were 943 718 income units entitled to receive CRA. See Steering Committee for the Review of Government Service Provision at 16.14.

Recommendation 13: Establish a long term Affordable Housing Growth Fund

An Affordable Housing Growth Fund should be established with a commitment of $750 million in the first year, growing to $6,000 million over 5 years. This funding should be strictly designated for expanding the stock of affordable housing as part of the NAHA.

The fund should support Affordable Housing Programs providing a range of different levels of subsidy to meet the needs of households with different income levels. Program guidelines should enable housing providers to draw on a range of Affordable Housing Programs to deliver maximum affordability and provide mixed tenure developments.

Cost: $750 million ($900 million in 2014-2015)

Recommendation 14: Increase the funds for the NRAS

The funding to NRAS should be increased in order to help attract private funding for another round of 50,000 affordable rental properties. This funding should be provisioned for the 2013-14 Budget year and should ideally double the original funding commitment.

Cost: neutral (no additional cost until 2016)

Recommendation 15: Review Commonwealth Rent Assistance and increase the maximum rate of CRA

CRA 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 of CRA should be increased from 1 January 2012 by 30% (approximately $15 per week) for low income households currently receiving the highest rate of CRA.

Cost: $718 million ($733 million in 2014-15)

TOTAL COST: $1,620 million ($1,798 million 2014-2015)

6 Social Security

6.1 Allowance payments

Unemployment payments (Newstart and Youth Allowances) were originally designed to tide people over a short period of unemployment. However, at times of relatively low and falling unemployment such as the present, those who remain on income support are among the most disadvantaged in the labour market. Of the 672,000 Newstart and Youth Allowance (Other) recipients in November 2012, around 60% had received these payments for over 12 months, the majority for over two years. Among these long term recipients, around 60% lack a Year 12 education or above. Among all unemployment payment recipients, around one in six (over 100,000) has a disability that prevents them from working fulltime and around one-third (over 200,000) are over 45 years old.[16]

The maximum single rate of Newstart Allowance in December 2012 was just $246 per week. The payment for unemployed young people living independently of their parents is $201 per week. As the recent Senate inquiry into the adequacy of Allowance payments confirmed, this is not enough to meet the most basic essential costs such as housing, food, clothing and importantly, basic job search costs. Our recently released 'Poverty in Australia' report indicates that the risk of poverty among people in households where the main earner receives Newstart Allowance was 52% in 2010 and the equivalent statistic for Youth Allowance recipients was 68%[17]. Research into financial hardship reinforces the inadequacy of many social security payments. For example in 2010, 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.[18]

The real value of Allowance payments has not increased since the early 1990s, and they were excluded from the $32 per week in pensions announced in 2009. As a result, Newstart Allowance is $140 per week less than the pension and Youth Allowance is $185 less. Allowance recipients and those on Parenting Payment 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 Disability Support Pension from seeking employment, in case they lose the pension and end up on the lower payments. The gap increases every year due to more stringent indexation arrangements for Allowance payments. Pensions are indexed to wage movements

[16] ACOSS 2010, *Beyond stereotypes.*

[17] ACOSS 2012, *Poverty in Australia.*

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

while Allowances are only indexed to the CPI. Since the large pension increase in 2009, the gap between these payments for single people has grown by an average of $10 per week per year.

The Henry Report of the tax-transfer system recommended that the single rate of Allowance payments be benchmarked to two-thirds of the partnered rate, as was implemented for single pensioners in 2009. This would currently require a $50 per week rise in the single rate of Newstart Allowance, which should also extend to other allowances such as Austudy and Abstudy payments and the Youth Allowance for those aged over 17 years living away from their parents. Payments for sole parents on Newstart Allowance should also increase accordingly. As the Henry Report noted, there is room to increase these payments without significantly weakening work incentives. A single adult on Newstart Allowance who obtains a fulltime job at the minimum wage would more than double their disposable income.

6.2 Family payments

Our family payment system performs two vital social and economic roles. It helps prevent child poverty (vertical equity) and it ensures that the tax-transfer system treats low and middle income families with children fairly by taking account of the costs of raising them (horizontal equity). In the absence of family payments, many more children would live in poverty and families' lower capacity to pay income tax would be ignored. It is fairer and simpler to compensate low and middle income families for the direct costs of children through the social security system than through tax rebates and deductions, which are complex, and which exclude those who are too poor to pay income tax. This also reflects the preferences of the vast majority of primary cares, who are predominantly mothers. Therefore, we do not regard family payments for middle income families as an undesirable form of 'middle class welfare'.

Yet in recent years, the family payment system has strayed from its primary purpose of preventing child poverty and has increasingly been used for purposes that are not well targeted, such as the Baby Bonus and Schoolkids Bonus. It is time to simplify what has become a ramshackle and complex system and bring it 'back to basics'.

The role of family payments in reducing poverty was embedded in the decision in the late 1980s to benchmark family payments for those on low incomes to the married rate of pension, and therefore to movements in wage rates. That decision sat at the core of the Hawke Government's much maligned, poorly understood but very important commitment to 'eliminate child poverty'. For the first time, the cost of raising a child relative to the costs of an adult was carefully evaluated and proper relativities were set between child and adult payments within the social security system. This followed many years in which pensions were indexed to wages and/or inflation but family payments were left to fall behind. Expert estimates at the time indicated that the resulting payment increases in family payments reduced child poverty by about one-third.

The crucial role of family payments in shielding children from poverty was undermined when the Government decided in 2009 to remove the link between maximum rates of Family Tax Benefit Part A and pension rates (though the decision to increase family payments for older children in the following Budget was very welcome and long overdue). This means that family payments for low income families will only increase with inflation, and that they will once again fall behind community living standards. The inevitable result is that child poverty, as it is normally measured, will increase.

In 2010, we estimate that one in six children (17%) is living below the austere poverty line used by the OECD (50% of median household disposable income). Sole parent families face a much higher risk of poverty than partnered families. Of the 575,000 children below this poverty line, half (286,000 children) were in sole parent families. Among other factors, this reflects the weaker economies of scale for the household budgets of sole parent families, and their greater difficulty combining care for children with paid employment. It was therefore of deep concern to ACOSS that the Government decided in last year's Budget to shift over 100,000 sole parents from the higher Parenting Payment to the lower Newstart Allowance, resulting in a typical loss of income for the poorest sole parent families of $60 per week.

Another 'shield' against child poverty within sole parent families is the Family Tax Benefit Part B payment. Unlike the equivalent payment for couples, this was not designed to assist parents to care for their children 'at home'. Rather, it replaced a previous payment called 'Guardian Allowance', which attempted to compensate sole parent families for the higher costs of raising a child alone, so that they could attain a similar living standard to couples with children on income support. The major problem with this payment for sole parents is that, because its purpose was confused with assisting parents to care for young children at home, the rate of payment drops by $22 per week once the youngest child reaches 5 years, yet the extra costs of raising a child alone are likely (if anything) to increase as the child grows older.

The 'Part B' payment for couples, on the other hand, is poorly designed. While its stated policy goal is to enable one parent (usually the mother) to care for a young child fulltime 'at home', it extends to the primary carers of children up to 18 years old. In this sense, it is poorly targeted, especially when the adverse effects on female workforce participation of the income test on the primary carer are taken into account. It is unjustifiable to restrict the Parenting Payment for low income parents to those with a preschool age child while extending the Part B payment up to age 18.

Other poorly designed additions to family payments in recent years include the Baby Bonus and Schoolkids Bonus. The purpose of these payments has not been clearly articulated. Although, on the surface, the Baby Bonus was supposed to assist with up front capital costs associated with a new baby, it appears to be intended to 'compensate' parents who are not employed for their lack of access to paid parental leave. This confuses the purpose of family payments with that of parental leave, which is different and distinct. It was also originally poorly targeted, and ACOSS has supported the means testing of this payment as an improvement.

The purpose of the Schoolkids Bonus, which replaced the School Tax Refund, is also unclear. If low and middle income families are struggling with increased child related costs, the best and simplest way for Government to help is simply to increase the maximum rate of Family Tax Benefit Part A and then index it properly. Parents could then decide whether to allocate their family payments to school costs or other more pressing needs. Similarly, the use of reduced family payments (an $83 a week reduction) as a 'penalty' for 16 to 17 year old children not being enrolled at school is harsh and counterproductive. It detracts from the purpose of family payments to ease poverty among children with no proven positive impact on school attendance.

We acknowledge that these 'bonus' payments provide much needed assistance to many families, so to simply abolish them without increasing other family payments would erode family living standards (especially given the lack of proper indexation of the main family payment). We therefore propose that these various payments be reviewed as a group in order to re-establish the adequacy of both the base rate, and indexation arrangements of family payments, and ensure that they are better targeted to addressing child poverty in Australia, as an urgent priority. Note: ACOSS is currently undertaking more detailed modelling and analysis and may make more specific recommendations in this area prior to the May Budget 2013.

Recommendation 16: Increase Allowance payments for single people by $50 per week

(1) Allowance payments for single people (other than those on youth and student payments) should be increased by $50 per week from March 2014, and benchmarked to 66.3% of the combined married couple rate of Allowances (a higher rate in the case of sole parents) as is the case for pension payments. 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 $50 per week from March 2014 and benchmarking of those payments to 66.3% of the married rate should be phased in.

Cost: $600 million ($1,500 million in 2014-2015)

Recommendation 17: Index Allowance payments annually to movements in earnings

From March 2014, 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 annually to movements in wages as well as to movements in prices.

Cost: $200 million ($300 million in 2014-15)

Recommendation 18: Restructure family payments to target families at risk of poverty and simplify the family payments system

In order to simplify family payments and focus them more clearly on the purposes of preventing child poverty and helping parents to provide care for young children, the expenditure associated with family payments, including the Baby Bonus and School Kids Bonus, should be reviewed as a whole, and better targeted to ensure adequacy of the base rate of family payments, and indexation arrangements, for the families in need of assistance. Note: ACOSS is currently undertaking more detailed modelling and analysis and may make more specific recommendations in this area prior to the May Budget 2013.

Cost: neutral

TOTAL COST: $800 million ($1,800 million in 2014-2015)

7 Taxation

Australia is the sixth lowest taxing country among the 33 OECD nations, ahead of Mexico, Chile, United States, Korea and Turkey.[19] Public revenue is about $80 billion a year below the OECD average. Australians are not over-taxed, but they are taxed unfairly and inefficiently. The main problem is an array of tax shelters and loopholes that enable well off people to avoid paying tax at the appropriate marginal rate. This means that most Australians have to pay higher rates of tax than they would otherwise to raise the same amount of revenue for Government benefits and services. It also undermines the integrity of the tax system, and undermines public confidence that everyone is paying a fair share of tax.

Individual taxpayers can reduce the marginal tax rates on their income by:

- sheltering income in a private trust;
- sacrificing salary for superannuation, which enables a tax-payer on the top marginal rate to reduce their tax rate from 46.5% to 15%; and
- once they reach the age of 55 years, ‘churning’ part of their wages through their superannuation fund and arranging for an equivalent (often tax free) pension to be paid to maintain their disposable income.

Businesses can reduce their tax by:

- in the case of international companies, shifting profits from Australia to other lower tax jurisdictions by maximising their Australian debt levels and their overseas profit levels (profit shifting);
- in the case of small business, taking advantage of Capital Gains Tax concessions not available to other taxpayers.

Many tax concessions are poorly targeted, benefiting taxpayers who do not need this form of public support. These include the Senior Australians and Pensioners Tax Offset (SAPTO) which is based on age rather than income and discriminates against younger taxpayers. This means, for example that a couple over 65 has an effective tax free threshold of around $80,000 (and more than this if they receive a superannuation pension). The deduction for self-education expenses may be a legitimate one from a tax policy point of view but as an educational subsidy it favours those already in professional jobs and discriminates against those who study to change careers. The Medical Expenses Tax Offset duplicates the role of direct expenditures such as the Medicare system and inflates medical costs for ‘high-end’ medical treatments. The Health Insurance Rebate for ancillary medical expenses is also a poorly targeted substitute for direct expenditures in health care.[20]

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[19] OECD (2011) *Revenue Statistics* Paris, France.

[20] The savings from this measure are costed in the Health chapter of this submission as it is also a direct expenditure.

If these tax expenditures and shelters were removed or pared back, the Government would have more funds available to meet social needs in a better targeted way, for example by investing in disability services, schools, dental care services and necessary improvements to Newstart and other Allowance payments. Many tax expenditures (such as private health rebates) are no different, in essence, to direct expenses. If the Government subjected tax expenditures such as these to the same rigorous Budget scrutiny as its direct expenditures, it could save billions of dollars every year. Regular reviews of a large number of smaller Budget items could save as much as the revenue savings from the handful of larger tax expenditures described below.

If the above measures were introduced, we estimate that Federal Budget revenue would increase by approximately $2,700 million in 2013-14, rising to approximately $4,500 million in 2014-15. This would assist the Government to restore the Budget to surplus without the need for harsh cuts in expenditure on important social programs. It would also make room for additional expenditure in priority areas identified in this submission.

Our proposal to reform the tax treatment of superannuation contributions has a different objective and is revenue neutral. It is designed to bring equity and efficiency to the taxation of superannuation, by targeting tax concessions for contributions towards low and middle income earners, who are more likely to rely on age pensions in retirement and less likely to save without tax incentives. The present tax treatment of superannuation – especially the flat 15% tax on employer contributions - is highly inequitable and inefficient. Almost half the value of $16 billion in tax concessions for contributions goes to the top 20% of superannuation fund members. Employer superannuation contributions made on behalf of an individual in the top tax bracket attract a tax break worth more than 30 cents per dollar contributed, while contributions made on behalf of low income earners below the tax free threshold attract a higher rate of tax than they pay on their wages. The Government's proposed 'government contribution' for low income earners, if legislated, would remove this tax penalty from their superannuation savings but they would still receive no tax support for contributions made by their employers, including Superannuation Guarantee contributions. The proposed additional 15% tax on employer contributions for individuals earning over $300,000 will also help improve equity in the system but tax concessions for those in the top two tax brackets who earn less than $300,000 would still be far too generous.

The main change proposed is to replace the flat 15% tax on employer contributions, the extra 15% tax for those earnings over $300,000, and other tax concessions for contributions with a simple capped rebate, along the lines proposed by the Henry Report. There are two main differences between this proposal and that in the Henry Report. First, employer contributions would not be taxed in the hands of employees

- instead tax would be deducted at each employee's marginal rate from contributions paid to the funds by the employer. Second, the rebate would have two rates: for example 100% up to a low annual ceiling (in lieu of the existing co-contribution) and 20% for additional contributions up to a ceiling that is significantly lower than the current $25,000 annual cap. The proposed system would be much fairer and simpler and would alleviate the need for frequent policy adjustments to improve equity in the system.

Recommendation 19: Existing tax concessions for superannuation, and the proposed Government superannuation contribution, should be replaced with a fairer and simpler superannuation rebate

From 1 July 2014 a two-tier co-contribution, paid annually into the relevant superannuation fund(s), should be introduced to replace all existing tax concessions, Government contributions, and co-contributions for superannuation contributions. The rebate should:

i. Apply to the sum total of all contributions (whether compulsory or voluntary and regardless of source);

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% of 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 fulltime wage).

Income tax at each employee's marginal rate should be deducted by employers from all contributions forwarded to the employee's superannuation fund, with a reconciliation between the ATO and the fund at the end of each year, when the rebate would be paid into the employee's account.

Revenue neutral

Recommendation 20: The use of private trusts to avoid personal income tax should be curbed.

From 1 July 2013, tax-preferred income of private discretionary trusts should be taxed as capital gains in the hands of beneficiaries and strong measures should be implemented to prevent the trustees from avoiding tax on income (including capital gains) that is not distributed to beneficiaries each year.

Revenue: $1,000 million in 2014-15

Recommendation 21: The avoidance of personal income tax by 'churning' income through superannuation funds should be curbed.

From 1 July 2014, the caps applying to concessional superannuation contributions made in respect to an individual should be reduced by any benefits paid to that person during the year.

Revenue: $500 million in 2014-15

Recommendation 22: Opportunities for international companies to reduce tax paid in Australia by increasing the debt levels of their Australian entities should be reduced.

The safe harbour debt limit in the 'thin capitalisation' rules for 'general entities' should be halved from 3:1 (3 parts debt per one part equity) to 1.5:1.

Revenue: $600 million ($700 million in 2014-15)

Recommendation 23: Certain Capital Gains Tax concessions exclusively for small business should be removed.

The following tax concessions for capital gains from the disposal of small business assets should be abolished from 1 July 2013:

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

Revenue: $1,000 million ($1,100 million in 2014-15)

Recommendation 24: Tax expenditures should be intensively reviewed each year by the Treasury and Expenditure Review Committee and poorly targeted tax expenditures should be reduced or abolished.

(1) From 1 July 2013:

- The SAPTO should be restricted to individuals entitled to a social security pension, and redesigned to exclude income within the pension free area from tax ($300m, $300m)
- The Medical Expenses Tax Offset should be abolished ($300m, $300m)

- The Health insurance rebate should be removed from ancillary medical expenses ($50m, $50m) [21]
- 'Grandfathering' arrangements for previous tax concessions for non-superannuation termination payments and unused leave (apart from bone-fide redundancy payments) should be removed ($250m, $300m)

(2) The Government should identify those tax expenditures that have a similar character to direct expenditures, attribute them to the relevant expenditure Departments, and include them in an annual Expenditure Review process through a process of 'envelope budgeting'.

Revenue: $900 million ($900 million in 2014-15)

Recommendation 25: Cap the tax deduction for self-education expenses

The deduction that can be claimed for self-education expenses should be capped from 1 July 2013

Revenue: $200 million ($300 million in 2014-15)

Note: Just prior to public release, the Government announced that it would be introducing this reform as a savings measure.

TOTAL REVENUE: $2,700 million ($4,500 million 2014-2015)

[21] The savings in direct expenses arising from this measure are costed in the Health chapter.