



# Budget Priorities Statement

—  
2020-2021



# Australian Council of Social Service

## Budget Priorities Statement 2020-2021

### Who we are

ACOSS is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

### What we do

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

### Document Information

First published in 2019 by the Australian Council of Social Service

Locked Bag 4777

Strawberry Hills, NSW, 2012 Australia

Email: [info@acoss.org.au](mailto:info@acoss.org.au)

Website: [www.acoss.org.au](http://www.acoss.org.au)

ISSN: 1326 7124

ISBN: 0 85871 004 8

© Australian Council of Social Service. Cover photo by León Prado on Unsplash

This publication is copyright. Apart from fair dealing for the purpose of private study, research, criticism, or review, as permitted under the Copyright Act, no part may be reproduced by any process without written permission. Enquiries should be addressed to the Publications Officer, Australian Council of Social Service. Copies are available from the address above.

# Contents

1. Executive Summary .....	7
1.1 Summary of recommendations .....	10
2. Budget strategy .....	20
Key messages .....	20
2.1 Reviving growth in incomes and jobs .....	21
2.2 Responding to the extreme weather and climate crisis .....	23
2.3 Guaranteeing essential services and income support.....	24
3. Improving access and affordability of essential community services .....	26
Key messages .....	26
3.1 Introduction .....	26
3.2 Increase funding for community services .....	27
3.3 Prevent cuts to existing community services.....	28
3.4 Apply fair and uniform indexation.....	29
3.5 Reduce the waiting list for Home Care Packages.....	29
3.6 Improve access to early childhood education and care .....	30
3.7 Ensure equality for Aboriginal and Torres Strait Islander children .....	31
3.9 Increase funding to peaks and advocacy organisations.....	33
4. Social security .....	34
Key Messages .....	34
4.1 Introduction .....	34
4.2 Raise the Rate to reduce poverty .....	36
4.3 Establish a Single Parent Supplement .....	37
4.4 Restore indexation of Family Tax Benefits .....	38
4.5 Establish a social security commission .....	38
4.6 Abolish compulsory Cashless Debit Card and Income Management ...	39
4.7 People who are unemployed should have a \$4,000 income bank .....	39
4.8 Reducing waiting periods for newly arrived migrants.....	40
4.9 Abolish the one week wait for parenting payments and Youth Allowance (Other) .....	40

4.10 Make Crisis Payment accessible to people escaping domestic violence .....	41
4.11 Abolish the Liquid Assets Waiting Period .....	41
4.12 Align the means test for Special Benefit with that of other allowances .....	42
4.13 Strengthen the capacity of Centrelink to meet need .....	42
4.14 Receive an allowance? Get a Low-Income Health Card .....	43
5. Improve job opportunities for people out of paid work .....	44
Key Messages .....	44
5.1 Make jobactive work for people disadvantaged in the labour market .	44
5.2 Replace ineffective programs with paid work experience in regular job .....	47
5.3 Career support for people without recent experience of paid work ....	48
5.4 A Local Partnerships for Employment scheme .....	50
5.5 Shift the dial from compliance to agency .....	51
5.6 Replace the Community Development Program .....	53
6. Climate, extreme weather and energy .....	55
Key Messages .....	55
6.1 Introduction .....	55
6.2 Invest in energy efficiency for low-income households .....	56
6.3 Aboriginal and Torres Strait Islander Communities Clean Energy Fund .....	58
6.4 Access to energy information for people who may be experiencing disadvantage.....	58
6.5 Shift the Small-Scale Renewable Energy Scheme off electricity bills..	59
6.6 Phase out fossil fuel subsidies .....	60
6.7 Just Transition for workers and communities .....	60
6.8 Help community organisations respond to climate change .....	61
6.9 Improve people’s resilience to the impacts of climate change.....	63

7. Retirement incomes and services that are decent, sustainable and based on need.....	65
Key messages .....	65
7.1 Introduction .....	66
7.2 A fair and balanced retirement incomes system rests on three pillars	66
Retirement Incomes Review: the purpose of the system .....	68
Retirement Incomes Review: compulsory superannuation .....	69
7.3 Fair and simple taxation of superannuation contributions .....	70
7.4 Fair and sustainable taxation of superannuation post-retirement .....	73
7.5 Taxation of other post-retirement income.....	75
7.6 Strengthen the Medicare Levy to fund health care for an ageing population .....	76
8. Strengthen preventive health care and public health services and the revenue base needed to pay for them .....	77
Key Messages .....	77
8.1 Introduction .....	77
8.2 Invest in health promotion and prevention programs .....	78
8.3 Transition to a universal dental health care scheme .....	79
8.4 Abolish the Private Health Insurance Rebate .....	79
8.5 Abolish the Extended Medicare Safety Net.....	80
8.6 Reducing harms from overuse of alcohol and sugary drinks .....	80
9. Improving access to affordable housing .....	82
Key messages .....	82
9.1 Introduction .....	82
9.2 Boost investment in new social housing, which meets accessibility and energy efficiency standards.....	83
9.3 Reform Rent Assistance to relieve rental stress for renters in the private market .....	84
9.4 Introduce a new rental investment scheme to stimulate investment in affordable rental housing .....	84
9.5 Develop a new national Aboriginal and Torres Strait Islander housing strategy for urban, rural, regional and remote areas .....	84
9.6 Develop a new inter-governmental remote housing agreement .....	85

Recommendation 49 Develop a new inter-governmental remote housing agreement .....	85
10. A fairer tax system that supports economic development.....	86
Key messages .....	86
10.1 Introduction.....	87
10.2 Ensure that personal income tax revenues are adequate to meet the community need.....	87
10.3 Tax investment income fairly and consistently.....	90
10.4 Curb tax avoidance through business and investment structures ....	92
Private trusts.....	92
Private companies.....	94
10.5 Strengthen the integrity of the business income tax system.....	95
10.6 Remove business tax concessions that encourage use of fossil fuels	96
10.7 Use the tax system to encourage healthy practices and fund preventive health care.....	97
Sugary drinks .....	97
Alcohol .....	98
11. Aboriginal and Torres Strait Islander Budget Measures .....	100

# 1. Executive Summary

The Federal Government 2020-21 Federal Budget will be brought down in the context of a flagging economy, stagnant incomes, growing unemployment, and as communities and businesses reel from drought and bushfires. It will be delivered in the face of major national inquiries which are exposing serious failings in our mental health, disability and aged care systems and gaping holes in our income support system which force people into poverty.

We cannot afford a small-target Budget in these circumstances. Nor can we afford to prioritise the delivery of a small budget surplus over and above boosting wages and jobs or ameliorating the needless suffering being caused by inadequate income support and services. **Now is the time for the Government to step up and use its budget to bolster growth in incomes, spending and investment to reduce unemployment and improve community wellbeing.**

While through good luck and good management, Australia has avoided a recession for the last 28 years, the last 5 years have seen sub-par growth in Gross Domestic Product (GDP), wages, household consumption, and falling business investment. Whilst the official unemployment rate fell overall from 6.2% to 5.2% over the last five years, the labour market is weakening with large scale underemployment a serious problem and a growing group of people facing long term unemployment. Unemployment has been rising for the last 12 months.

In the past, the lowest interest rates for 50 years, together with this year's \$8 billion in income tax cuts, probably would have lifted household incomes and jobs growth. In today's unusual economic conditions the usual strategies are not working. The best outcome we can expect under present policies is more of the same, and that's clearly not good enough.

Unlike the previous four decades, the challenge for economic management for the last five years has been to revive wages growth.

In the short term, the fiscal stimulus that is needed to strengthen growth in jobs and incomes should be provided on the expenditure side of the budget. Personal income tax cuts and investment incentives are much less effective per dollar 'spent' than the direct expenditure measures we propose, as evidenced by the lack of any 'bounce' in household spending from the 2019



tax cuts.<sup>1</sup> Bringing forward the legislated tax cuts for higher income-earners would be costly (the next round of tax cuts costs \$16 billion in 2023-24 alone), unfair and not cost-effective because high income-earners save more of their income.

The Reserve Bank, International Monetary Fund and Organisation for Economic Cooperation and Development have all called for fiscal action – including boosts in income support payments and infrastructure investment – to stimulate the economy.<sup>2</sup> The risks of an outbreak of inflation and higher public debt are less than the risks of higher unemployment, flat-lining incomes, and the possibility of a major economic downturn within the next few years. There is limited scope for interest rates to stimulate demand for goods and services without further undermining housing affordability.

**We call on the Australian Government to work with States and Territories to craft a Budget policy package that pursues three primary goals:**

- 1. Revive growth in incomes and jobs**
- 2. Respond to Extreme Weather and the Climate Crisis**
- 3. Guarantee Essential Services and Income Support**

Our Budget proposals meet all three goals.

We stand by the nation-wide call to **Raise the Rate of Newstart** and related allowance payments for single people and sole parents which only grows in urgency. Newstart must be quickly raised by \$95 per week to get more money to people who most need it and will spend it immediately in regions that most need it. We have increased our previous \$75 per week recommendation, which was based on 2015 budget standards research, so it keeps pace with cost of living and wage movements since that time.

Without limiting the range of possible options, the government should also:

---

<sup>1</sup>For discussion of international evidence on cost-effective fiscal stimulus, see ACOSS (2019a): *Restoring growth: [Tax cuts or payments and services?](#), ACOSS, Sydney.*

<sup>2</sup> Lowe, P (2019): *The economic outlook and monetary policy, Address to the Economic Society of Australia, Reserve Bank of Australia, Brisbane, 21 May 2019.* Available: <https://www.rba.gov.au/speeches/2019/sp-gov-2019-05-21.html>; OECD (2019): *OECD Economic Outlook*, OECD Publishing, Paris. Available: [https://www.oecd-ilibrary.org/economics/oecdeconomic-outlook\\_16097408](https://www.oecd-ilibrary.org/economics/oecdeconomic-outlook_16097408); IMF (2019): *Australia: [Staff Concluding Statement of the 2019 Article IV Consultation Mission, Washington D.C.](#)*



- Directly invest or otherwise support the construction of **new social housing** to reduce homelessness and sustain housing construction without hiking home prices.
- Support social housing providers and homeowners to **improve the energy efficiency** of the homes of people on low and modest incomes, who will otherwise be worst affected by climate change.

In addition to the short-term boost to incomes and jobs that this package would deliver nationally, this submission outlines a range of recommendations to boost the incomes of those with the least, secure the revenue we need to guarantee essential services and future service needs, close gaps in the safety net, address the serious shortfall of affordable housing around the country, including in remote communities and improve community disaster preparedness and resilience.

The recommendations we advance would also deliver a range of other important policy outcomes:

- **Support for drought-affected regional economies:** We have designed a range of specific measures to invest in communities' recovery from the devastating effects of extreme weather. In addition, the proposed Newstart boost would deliver particular benefits to regional communities, with Deloitte modelling demonstrating that many millions of dollars would flow to regional communities.
- **Improved mental health and suicide prevention:** We know that financial stress is a contributor to poor mental health and, in some cases, suicide. So too is a loss of control over one's life. Our proposals to boost unemployment payments, introduce more flexibility into the employment services system, reduce waiting periods for key payments for vulnerable groups, boost funding to community services and boost investment in low cost housing, would all address the key social determinants of poor mental health.
- **Equipping the aged care system to meet the needs of changing population and in the future:** The community is rightly concerned about the deficiencies in aged care revealed in the current Royal Commission, and increases in out-of-pocket costs for those services, including large up-front deposits for residential care. Government must respond to those concerns meaningfully. It will not be possible for future governments to properly fund aged care and health services for an ageing population as long as only 16% of older people pays income tax. The Federal Government's Retirement Incomes review currently underway provides an opportunity to address major revenue and

service challenges and create a sustainable and fair retirement policy framework for our future.

The choices made in the 2020-21 Federal Budget will impact on the trajectory of poverty in Australia and our capacity as a nation to meet the needs of everyone in our community, today and into the future. A responsible Government would deliver a Budget that charts and resources a plan to manage the serious economic, social and environmental challenges we face now and in the coming years and enhances community wellbeing. Our proposals to effect such a plan are outlined below.

## 1.1 Summary of recommendations

We propose additional expenditures of \$16.1 billion (\$22.6 billion in 2021-22), and an increase in revenues of \$11.5 billion (\$22 billion in 2021-22), with modest net cost of \$4.5 billion (\$350 million in 2021-22). Based on the budget estimates in the 2019 MYEFO statement, this would leave the Budget in balance in 2020-21.

More importantly, in future years the impact of the savings measures would grow, helping offset necessary increases in the cost of essential services including health, aged care and the NDIS. Key expenditure and revenue proposals are summarised in the following table:

<b>Expenditure Measures</b>	<b>2020-21 Cost \$m</b>	<b>2020-21 Saving \$m</b>	<b>2021-22 Cost \$m</b>	<b>2021-22 Saving \$m</b>
Commonwealth funding for community services should be increased by \$2 billion per annum in order to reverse the cuts seen since the 2014 Budget	-10		-2000	
The base rate of grants for community sector organisations currently receiving ERO supplementation should be increased to incorporate that supplementation so as to prevent cuts across the community sector	0		-566	
Indexation for community sector funding should be improved	-350		-358	

<b>Expenditure Measures</b>	<b>2020-21 Cost \$m</b>	<b>2020-21 Saving \$m</b>	<b>2021-22 Cost \$m</b>	<b>2021-22 Saving \$m</b>
Commonwealth funding for Home Care Packages should be increased by \$2.3 billion in order to reduce the wait list to no more than three months and ensure older people can remain in their homes as they age	-2300		-2400	
Current early childhood education and care policy settings should be reformed	-620		-982	
Improve access to early childhood services by Aboriginal and Torres Strait Islander children	-73		-75	
A high-level independent body should be established to oversee rigorous evaluation (quantitative and qualitative) of the impact of public policies, programs and initiatives with maximum input from people who use social services, and evaluations and data should be promptly released (subject to privacy rules)	-5		-5	
In order to ensure that everyone's voice is heard in our public debate, peak bodies and advocacy organisations representing people facing disadvantage should be adequately funded	-10		-10	
Maximum rates of Newstart, Youth Allowance and related payments for single people should be raised by at least \$95pw and these payments should be indexed to wage movements	-3758		-3840	

<b>Expenditure Measures</b>	<b>2020-21 Cost \$m</b>	<b>2020-21 Saving \$m</b>	<b>2021-22 Cost \$m</b>	<b>2021-22 Saving \$m</b>
Family payments for single parent families should be increased	-63		-65	
Rates of Family Tax Benefits should be unfrozen and the maximum rate of Family Tax Benefit Part A should be linked to wage growth to ensure it increases in line with community incomes	-630		-644	
A social security commission should provide independent expert advice to the Parliament about the setting of social security payment rates (including family payments), covering adequacy, means test settings and indexation	-4		-4.1	
Compulsory income quarantining should cease	0		0	
An 'income bank' should be introduced for recipients of allowance payments	-320		-327	
Waiting periods for newly arrived migrants should be reduced	-320		-327	
Parents and young unemployed people should receive payment (or be back-paid to) the date they lodged their claim or intent to claim	-60		-61	
Crisis Payments should be made more accessible to domestic violence survivors	-30		-31	
The Liquid Assets Waiting Period should be abolished and replaced with a comprehensive means test for payments to which it applies	-30		-31	

<b>Expenditure Measures</b>	<b>2020-21 Cost \$m</b>	<b>2020-21 Saving \$m</b>	<b>2021-22 Cost \$m</b>	<b>2021-22 Saving \$m</b>
Given the low rate of the payment and that most people receiving Special Benefit are in deep financial disadvantage, its means test should be aligned with that of other allowances	-20		-20	
The quality and accessibility of Centrelink services should be improved	-40		-41	
People eligible for allowance payments, including Newstart, Youth Allowance, Special Benefit, Austudy and Abstudy, should automatically receive a Low-Income Health Card	-10		-10	
Transition jobactive towards a more personalised system of support for people disadvantaged in the labour market	-280		-350	
Expand paid work experience in regular jobs for people unemployed long term	0		-130	
Introduce a broadly based Career Transitions Scheme	0		-100	
Establish a local partnerships for employment trial scheme	0		-50	
Replace harsh compliance arrangements with a strengths-based approach	Not costed		Not costed	
Replace the Community Development Program with a Fair Work and Strong Communities scheme	0		-250	
Partner with local councils to provide access to energy efficiency audits and upgrades for low-income owner occupiers*	0		0	

<b>Expenditure Measures</b>	<b>2020-21 Cost \$m</b>	<b>2020-21 Saving \$m</b>	<b>2021-22 Cost \$m</b>	<b>2021-22 Saving \$m</b>
Match state and territory governments \$1 for \$1 to undertake an assessment of housing stock and then invest in energy efficiency upgrades or replacement of poor housing for public, Aboriginal and community housing*	0		0	
All states and territories implement mandatory energy efficiency standards in rental properties by 2023 and, if necessary, the federal government to provide financial support to landlords to support upgrades	0		0	
Establish an Aboriginal and Torres Strait Islander Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities*	0		0	
Match state and territory governments \$1 for \$1 to provide a grant scheme for consumer and community organisations to provide targeted support to assist vulnerable consumers to improve energy literacy and efficiency	-0.95		-0.95	
Shift the Small-Scale Renewable Energy Scheme off electricity bills and on to government budget*	0		0	
Support a just transition for workers and communities	-2		-4	

<b>Expenditure Measures</b>	<b>2020-21 Cost \$m</b>	<b>2020-21 Saving \$m</b>	<b>2021-22 Cost \$m</b>	<b>2021-22 Saving \$m</b>
Support community sector organisations to undertake sector specific risk assessments and implement disaster management and service continuity plans	-1		-1	
Provide a grant to support community sector organisations to undertake extreme weather preparedness and response training for staff and volunteers	-10		-12	
Provide funds to support community sector organisation participation in planning, response and recovery at all levels	-210		-220	
Provide funds to undertake adaptation and preparedness benchmarking specific to community service provision that enable organisations, their funding agencies and insurers to plot progress towards risk reduction, resilience and adaptive capacity	-0.39		-0.4	
Provide a contingency fund and ensure contracts for service delivery provide greater flexibility to community service organisations and enable them to participate effectively in disaster response and recovery efforts	-140		-140	



<b>Expenditure Measures</b>	<b>2020-21 Cost \$m</b>	<b>2020-21 Saving \$m</b>	<b>2021-22 Cost \$m</b>	<b>2021-22 Saving \$m</b>
Support the development of an Australian social vulnerability map similar to ClimateJust in the United Kingdom or the Social Vulnerability Index in the United States, to support the development of local climate change adaptation and resilience plans	-0.5		-0.12	
Contribute revenue, in collaboration with states and territories, to support local councils to work with community services organisations, to strengthen individual and community capacity to better adapt and become resilient to local climate change factors	-53		-55	
Resource community service organisations to build climate resilience of their clients	-175		-180	
Increase investment in health promotion and prevention (including nutrition, obesity, tobacco and alcohol use, mental health, diabetes and cancer prevention, and communicable diseases prevention) to 5% of total Commonwealth health spending	-2600		-2657	
Create a universal, federally funded dental care scheme	-1100		-1124	
Abolish the Private Health Insurance Rebate which costs \$6.3 billion per annum, and reinvest \$2.3 billion in public hospitals		4000		4100

<b>Expenditure Measures</b>	<b>2020-21 Cost \$m</b>	<b>2020-21 Saving \$m</b>	<b>2021-22 Cost \$m</b>	<b>2021-22 Saving \$m</b>
Abolish the Extended Medicare Safety Net, which costs \$500 million a year and is driving up medical costs		500		511
Introduce an affordable rental housing investment incentive which rebates a proportion of the construction costs of new 'affordable rental' dwellings annually over a ten year period, during which rents are held at least 20% below median market levels	0		600	
Boost investment in new social housing, which meets accessibility and energy efficiency standards	-1000		-4000	
Reform Rent Assistance to relieve rental stress for renters in the private market	-1200		-1226	
Develop a new national Aboriginal and Torres Strait Islander housing strategy for urban, rural, regional and remote areas	-175		-190	
Develop a new inter-governmental remote housing agreement	-450		-475	
<b>EXPENDITURE TOTAL</b>	<b>-16051</b>	<b>4500</b>	<b>-22363</b>	<b>4611</b>

(\*Drawn from Climate Solutions Fund)

<b>Revenue Measures</b>	<b>2021 Cost \$m</b>	<b>2021 Saving \$m</b>	<b>2022 Cost \$m</b>	<b>2022 Saving \$m</b>
Fair and simple tax concessions for superannuation contributions		0		0
Tax superannuation fund earnings after retirement to help pay for aged care and health		0		2500
Remove age-based tax concessions to help finance health and aged care services		700		700
Strengthen the Medicare Levy		1200		1300
Do not proceed with scheduled income tax cuts		0		0
Reduce the Capital Gains Tax discount for individuals and trusts		600		1200
Remove inequitable small business Capital Gains Tax concessions		0		300
Restrict deductions for personal investment expenses (negative gearing)		0		600
Curb the use of private trusts to avoid personal income tax and conceal income		0		1500
Prevent the use of private companies to avoid personal income tax		0		1400
Curb international business tax avoidance		0		500
Abolish fuel tax credits for off-road use		4500		4600
Introduce a 'sugar tax' on sweetened drinks		0		500
Reform alcohol excise so that tax is levied consistently on the basis of alcohol content		0		2300
<b>REVENUE TOTAL</b>	<b>0</b>	<b>7000</b>	<b>0</b>	<b>17400</b>

	<b>2021 \$m</b>	<b>2022 \$m</b>
<b>Total Costs</b>	<b>-16051</b>	<b>-22363</b>
<b>Total Savings</b>	<b>11500</b>	<b>22011</b>
<b>Net Total (savings)</b>	<b>-4551</b>	<b>-352</b>

NOTE: A positive value indicates the measure will improve the Budget bottom line; a negative value means it will reduce the Budget balance.

NOTE: This excludes a number of small budget items which we are unable to cost, but the Budget impact of these measures is not expected to be substantial.

### **A note on costings**

*ACOSS is committed to presenting considered, evidence-based and responsible proposals to government for budget reforms. Where possible, we have used 'STINMOD+', a microsimulation model that calculates the effects of tax and transfer policy on disposable incomes, developed by NATSEM at the University of Canberra. Other costings are estimates only based on information available publicly. We have noted a number of measures which we have not been able to cost.*

## 2. Budget strategy

### Key messages

- Given extremely low inflation and interest rates, and the lack of progress in reducing unemployment and reviving growth in wages or spending by households and businesses in recent years, the Budget should be used - in support of monetary policy - to strengthen flagging growth in incomes, living standards and jobs over the next two years.
- A key aim should be to achieve full employment: a level of unemployment and under-employment at which people seeking employment or more paid hours are able to do so, wage growth resumes, and inflation reaches at least 2%.
- Caps on expenditure and revenue, and short-term targets for budget balance, should no longer be pursued.
- At a time when households are heavily indebted and businesses lack sufficient demand for their products, tax cuts are not cost-effective as economic stimulus.
- Instead, the government should develop a package of measures to strengthen growth in incomes and jobs for announcement in the Budget, including:
  - An immediate \$95pw increase in Newstart and related allowance payments for single people and sole parents ([Chapter 4: Social security](#));
  - A social housing investment package to build 20,000 new dwellings over the next two years ([Chapter 9: Improving access to affordable housing](#));
  - A program to improve the energy efficiency of social housing and homes owned by people with low incomes ([Chapter 6: Climate, extreme weather and energy](#)).

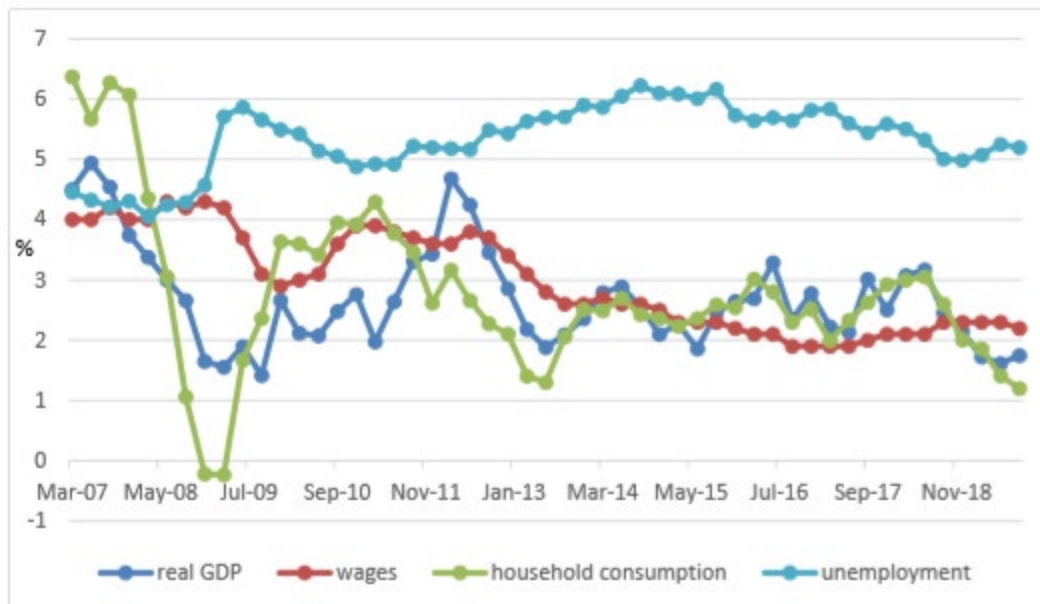
These measures would provide a modest boost of \$5B (0.25% of GDP) in 2020-21 and \$10B (0.5% of GDP) in 2020-21. Additional stimulus measures should be adopted.

- The government should also pursue workplace relations reforms to strengthen growth in wages, and invest in employment assistance to ensure that people unemployed long term secure a greater share of the jobs available.

## 2.1 Reviving growth in incomes and jobs

Through good luck and good management, Australia has avoided a recession for the last 28 years. Yet for the last five years, despite a rapidly growing population real growth in GDP has averaged just 2.5% a year, wages have grown by 2.3%, household consumption by 2.5%, and business investment has fallen by an average of 3.5% a year (Figure 1).

Whilst the official unemployment fell overall from 6.2% to 5.2% over the last five years, the labour market is weakening with large scale underemployment a serious problem and a growing group of people facing long-term unemployment. Unemployment has been rising for the last 12 months.



**Figure 1: Economic indicators since the Global Financial Crisis (growth % year on year)**

In the past, the lowest interest rates for 50 years, together with this year's \$8 billion in tax cuts, probably would have restored household incomes and spending. In today's unusual economic conditions, the usual strategies are not working. The best outcome we can expect under present policies is more of the same, and that's clearly not good enough.

Unlike the previous four decades, the challenge for economic management for the last five years has been to revive wages growth. Now is the time, with the cost of funds at historic lows, inflation well below the 2-3% targeted by the RBA, and wages and business investment flat, for the Government to

step up and use its budget to bolster growth in incomes and investment to reduce unemployment and improve community wellbeing.

The Reserve Bank, International Monetary Fund and Organisation for Economic Cooperation and Development have all called for fiscal action – including boosts in income support payments and infrastructure investment – to stimulate the economy.<sup>3</sup> The risks of an outbreak of inflation and higher public debt are less than the risks of higher unemployment, flat-lining incomes, and the possibility of a major economic downturn within the next few years. There is limited scope for interest rates to stimulate demand for goods and services without further undermining housing affordability. Nor have this year's income tax cuts boosted spending by households worried about debt, with the latest data showing retail sales rose by just 0.2% in the three months to September. Bringing forward the legislated tax cuts for higher income-earners would be costly (the next round of tax cuts costs \$16 billion in 2023-24 alone), and not cost-effective because high income-earners save more of their income.

**We call on the Australian Government to work with States and Territories to craft a policy package that strengthens incomes and jobs growth in 2020 and improves national productivity and the lives of people who most need support from government.**

At the least, Newstart and related allowance payments for single people and sole parents should be quickly raised by \$95pw to get more money to people who most need it and will spend it immediately in regions that most need it.

Without limiting the range of possible options, the government should also:

- Directly invest or otherwise support the construction of new social housing to reduce homelessness and sustain housing construction without hiking home prices.
- Support social housing providers and homeowners to improve the energy efficiency of the homes of people on low and modest incomes, who will otherwise be worst affected by climate change.

Since part of the reason for sluggish growth in incomes is a structural decline in wage increases, economic stimulus measures should be accompanied by reform of workplace relations and substantial increases in minimum wages to lift wage growth.

---

<sup>3</sup> 3 Lowe, P (2019): *op. cit.*; OECD (2019): *op. cit.*; IMF (2019): *op. cit.*



Any fiscal boost should also be accompanied by well-crafted investment in employment assistance to ensure that people unemployed long-term are not left behind as the economy recovers ([Chapter 5: Improve job opportunities for people out of paid work](#)). This would include expansion of wage subsidies and vocational training, and requirements for contractors on Commonwealth-funded infrastructure projects to offer at least temporary paid employment (supported by wage subsidies) to people unemployed long-term.

## 2.2 Responding to the extreme weather and climate crisis

The nation has been hit in an unprecedented way by the devastating effects of bushfires, drought and extreme weather events as the climate crisis grows. The call on the Budget grows daily with the urgent need to invest in short and longer term responses to these unprecedented extreme weather events.

The economic, social and environmental impacts of these extreme weather events hit hard, and will be felt for years ahead. People and communities with lower incomes and resources are being hardest hit, and will need the greatest support to recover.

We must urgently invest in the transition we need to a clean economy. To limit the impacts of dangerous climate change, the world and Australia need to rapidly reduce emissions. Australia should set emissions reduction targets of zero net emissions before 2050 and at least 45% by 2030.

Even if we rapidly reduce emissions, the world has already locked in high levels of pollution. Policies are needed to build resilience of community sector organisations and reduce the impact of climate change on people experiencing poverty and disadvantage.

These policies require a substantial budgetary investment: in energy infrastructure, to support people to reduce household emissions, and to assist communities to adjust to the impacts of climate change which are already being felt. Along with our proposed household energy efficiency package, these measures would also boost to jobs and incomes.

## 2.3 Guaranteeing essential services and income support

The government argues it can implement income tax cuts costing \$32 billion a year, hold real annual growth in public spending to its lowest rate in 50 years, keep the budget in surplus and still guarantee the services the community needs.

This is clearly unrealistic, as demonstrated by the halving of projected budget surpluses over the next four years in the December 2019 Mid-Year Economic and Fiscal Outlook statement (MYEFO).

There are three main flaws in the Commonwealth Budget's accounting:<sup>4</sup>

- Unrealistic economic projections:
  - The 2019 budget predicted that in 2019-20 real GDP, wages and consumer demand would all grow by 2.75%, and business investment would grow by 5%. In the MYEFO eight months later, these estimates were revised down to 2.25%, 2.5%, 1.75% and 1.5% respectively.
  - Slower growth in these factors impacts on budget revenues, which have been temporarily buoyed by mining exports and related company tax collections.
- Unrealistic or socially damaging restraint in budget expenditures:
  - The 2019 Budget and the MYEFO assume that real annual growth in Commonwealth spending can be held to an average of just 1.3% over the next four years (half the average rate of growth since the Coalition government was elected in 2013). Since this is close to population growth, the expected increase in per capita budget spending would be close to zero.
  - This requires holding annual growth in health at 0.7% a year after inflation (despite growing demand for GP and hospital services), social security and welfare at 1.8% (despite the expansion of the NDIS), and an average annual decline in spending on housing of 2.7% (despite increasing homelessness).
- Neglect of pressing social needs:
  - The projected budget surpluses follow years of spending cuts in social security, community services, health and education, which would be locked in place by the spending constraint projected in the budget and MYEFO statement.

---

<sup>4</sup> ACOSS (2019b): *The uncertain future of essential services: Briefing note on trends in Commonwealth spending*, ACOSS, Sydney.

- The budget strategy leaves little or no room to close the most pressing gaps in essential services, including aged care, preventive health, dental and mental health, and social housing, and to improve the lives of Aboriginal and Torres Strait Islander communities. There is also an urgent need to increase Newstart Allowance, and Rent Assistance and family payments for people with low incomes.
- The Parliamentary Budget Office estimates that population ageing alone will increase the cost of health and aged services by around \$8 billion a year (in today's dollars) by 2028, and income support for older people by a similar amount.<sup>5</sup>
- There is no sign that the government's budget strategy takes account of these growing budget pressures.

Instead of holding tax revenues to an arbitrary percentage of GDP, the main answer to these budget pressures is a modest lift in public revenues. This can be achieved in an equitable way by broadening the income tax base – closing economically harmful tax shelters and reducing tax concessions that are not fit for purpose. Future governments cannot afford the \$32 billion in annual income tax cuts – mainly going to high income-earners – scheduled to be fully implemented in 2024. Any income tax cuts over the forward estimates period should be largely paid for by closing tax shelters.

By strengthening the revenue base, it enables us to guarantee essential services in reality, not just rhetoric. We have major gaps in key areas of essential services and income support, including health and community services, social security and housing.

---

<sup>5</sup> *Parliamentary Budget Office (2019): [Australia's ageing population - understanding the fiscal impacts over the next decade](#), Parliamentary Budget Office, Canberra.*

## 3. Improving access and affordability of essential community services

### Key messages

- There are currently a number of yawning gaps in the delivery of human services in Australia that this budget should fill. As a first step, \$2 billion should be invested in community services in order to reverse the cuts seen since the 2014 Budget, and respond to growth in population and increases in the cost of delivering services.
- Waiting lists for many essential services are too long, including in aged care, where older people can wait for months for access to a home care package that meets their needs.
- We also need to boost investment in children in the early years, particularly for Aboriginal and Torres Strait Islander children. Quality early childhood education has a significant positive impact on a child's development and future learning outcomes.
- A key issue for the community sector is the impending expiration of the Social and Community Services Pay Equity Special Account Act 2012 ('ERO'), with no current budget allocation for this funding going forward.
- At the same time, the Commonwealth fails to index many of the grants it provides to community organisations, or provides inadequate indexation. As the cost of delivering services rises, the funding does not, and community organisations are forced to squeeze more out of already stretched budgets.

### 3.1 Introduction

Australia's community sector is a vital part of society and the economy, working to alleviate poverty and disadvantage, reduce social and economic inequality, create opportunity and build a fairer country. The services, advocacy and support that our sector delivers make Australia a better place.

Our sector faces considerable funding and regulatory challenges that make it harder to achieve positive outcomes for the people and communities that we work with. Many of these challenges have accumulated over years, and now present a series of unnecessary roadblocks to achieving the change we want to see for people experiencing poverty and disadvantage. Removing them would make a real difference to our sector's capacity to do our important work.

In addition, in the last six years the funding climate for essential and innovative community services has been one of chronic uncertainty. The combination of cuts, followed by partial reversals or freezes or the 'repackaging' of funding allocations have wrought havoc in critical areas of social infrastructure. Indexation has not been adequate to account for higher wage costs. Providers cannot plan for quality service delivery let alone innovate, when community sector workers are uncertain about their futures.

### 3.2 Increase funding for community services to restore income lost to budget cuts and meet increased demand for assistance

Commonwealth funding for community services has for the last six years been marked by uncertainty, under-resourcing and cuts. Since 2013 we have seen billions of dollars cut from the programs and services that people in the greatest need rely on – cuts which have occurred in the context of growth in population and demand for services, and increases in the cost of service delivery. The impact of this under-resourcing is being felt across the country and through the life course, especially by those on the lowest incomes, experiencing financial crisis or family breakdown, children at risk, vulnerable young people, people facing eviction and homelessness, carers in need of respite, those struggling with drug and alcohol addictions, and people with mental health problems or other serious health concerns.

**Recommendation 1** Commonwealth funding for community services should be increased by \$2 billion per annum in order to reverse the cuts seen since the 2014 Budget

1. Funding should also respond to growth in population and increases in the cost of delivering services, and meet more of the demand for services with a focus on the following:
  - a. Indigenous Advancement Strategy initiatives
  - b. Community Legal Centres
  - c. Family and Relationship Support Programs
  - d. Playgroup Programs
  - e. Domestic and Family Violence programs
  - f. Financial Counselling
  - g. Emergency Relief and Food Relief
  - h. Community Development, Diversity and Social Cohesion
  - i. Programs for migrants, refugees and asylum seekers

- j. Homelessness programs
  - k. Volunteer Grants
  - l. Programs for older people
  - m. Representation of and advocacy for people with disability
  - n. Support for Carers
  - o. Community Mental Health Programs.
2. Allocation of the funding should be made following a comprehensive service needs analysis and demand mapping exercise, conducted in partnership with the community sector and communities across Australia.

*Costing: \$10 million (\$2,000 million in 2021-22)*

### 3.3 Prevent cuts to existing community services by maintaining proper funding to pay fair wages

In 2012 the Fair Work Commission made a landmark decision that addresses the gendered undervaluation of work performed in much of the community services sector (The Equal Remuneration Order). As a result, wages increased by up to 45% over 8 years, and most governments across Australia, including the federal Government, provided additional funding to ensure that community sector organisations could pay equitable wages, and maintain essential services to the community. There is not funding budgeted to continue this supplementation beyond 2021. The supplementation that was provided in federal government grants and service agreements simply maintained the level of services to communities and ensured community organisations adhered to their industrial obligations under the ERO ruling. The continuation of this supplementation must be secured in the 2020-21 Budget through incorporation into the base rate of community sector grants.

**Recommendation 2** The base rate of grants for community sector organisations currently receiving ERO supplementation should be increased to incorporate that supplementation so as to prevent cuts across the community sector.

*Costing: \$0 million (\$566 million in 2021-22)*

### 3.4 Apply fair and uniform indexation to all grants and contracts for community sector organisations

The Commonwealth does not have a consistent or adequate approach to indexation of funding to community organisations. As a result, many community sector organisations have seen real cuts to the value of their funding. Unfunded shortfalls seriously impact on the sector's capacity to offer services to local communities. In real terms the indexation arrangements amount to a gradual reduction of Commonwealth funding against projected cost increases, which mainly comprise wages.

**Recommendation 3** Indexation for community sector funding should be improved:

1. The federal government should establish the Wage Price Index (when greater than the Consumer Price Index for the same period) as the primary index for annual funding adjustments, and publish the indexation rate in the Budget Papers; and
2. Exempt community sector funding from the Efficiency Dividend.

*Costing: \$350 million (\$358 million in 2021-22)*

### 3.5 Reduce the waiting list for Home Care Packages to no more than three months

Too many older people spend too long on waiting lists for Home Care Packages. As at September 2019 there were 119,524 people who have been assessed as needing care, and many of those people have been waiting more than a year for a package that meets their needs. As a result people are entering residential aged care when, with the right support, they could remain at home. Some people are dying waiting for a package. We must invest more so that older people can remain at home and get the support that they need to do so.

**Recommendation 4** Commonwealth funding for Home Care Packages should be increased by \$2.3 billion in order to reduce the wait list to no more than three months and ensure older people can remain in their homes as they age.

*Costing: \$2,300 million (\$2,400 million in 2021-22)*



### 3.6 Improve access to early childhood education and care

Quality early childhood education has a significant positive impact on a child's development and future learning outcomes. Children who attend early childhood education for at least a year before starting school are half as likely to have developmental vulnerabilities when they start school as children who have not received early learning services. Despite significant strides in lifting enrolments of children in preschool programs in the year before school (four year olds), Australia lags in enrolment of three-year-olds, and is in the bottom third of countries ranked by the OECD (at 69%).

**Recommendation 5** Current early childhood education and care policy settings should be reformed so that:

1. Children have the right to at least two days per week of quality early childhood education and care, irrespective of their parents' workforce participation or other activity;
2. Children have access to high-quality early education two years before school; (with the national rollout of this reform to prioritise children experiencing educational disadvantage, specifically Aboriginal and Torres Strait Islander, children in rural and remote areas, children from non-English speaking backgrounds).
3. Funding commitments are long-term to provide security for parents and early learning centres.

*Costing: \$620 million (\$982 million in 2021-22)*

### 3.7 Ensure equality for Aboriginal and Torres Strait Islander children in their early years

Aboriginal and Torres Strait Islander children are supported by their families, their communities and their culture. Despite this support, Aboriginal and Torres Strait Islander children continue to face challenges arising from colonisation and its effects. Achieving equality means we need to dismantle the systems that perpetuate the ongoing trauma experienced by Aboriginal and Torres Strait Islander children.

**Recommendation 6** To improve access to early childhood services by Aboriginal and Torres Strait Islander children, the following steps should be taken in line with the SNAICC and Early Childhood Australia (ECA) position paper – Working Together to ensure Equality for Aboriginal and Torres Strait Islander Children:

1. Ensure Aboriginal and Torres Strait Islander three and four-year-olds have a minimum of three days per week of high-quality preschool with a bachelor-qualified teacher;
2. Separately to the universal service commitments in the previous recommendation, adjust the activity test within the Child Care Subsidy so that Aboriginal and Torres Strait Islander children can have up to 30 hours per week of subsidised early education and care, without parents having to meet work or study requirements;
3. Fund a targeted program to support evidence informed, culturally safe, and well integrated early childhood and family-focussed programs, across the nurturing care spectrum in early education and care services that work with high numbers of Aboriginal and Torres Strait Islander children.

*Costing: \$73 million (\$75 million in 2021-22)<sup>6</sup>*

---

<sup>6</sup> Excludes the change to the activity test component of this recommendation, which is not costed.

### 3.8 Establish an Evaluator General to oversee the evaluation and monitoring of policy, programs and initiatives

Ensuring that programs and initiatives delivered by government are effective is vital so that public money is invested well. Evaluations of programs undertaken by departments and agencies are of inconsistent quality; reports and data are not always promptly released; and there is a lack of coordination of effort to make use of data across government, and learn from evaluations in other portfolios. Rather than centralising all data and evaluations, the first step to improving this situation is to establish a central oversight agency to improve consistency and coordination in the evaluation of programs.

**Recommendation 7** A high-level independent body should be established to oversee rigorous evaluation (quantitative and qualitative) of the impact of public policies, programs and initiatives with maximum input from people who use social services, and evaluations and data should be promptly released (subject to privacy rules).

*Costing: \$5 million (\$5 million in 2021-22)*

### 3.9 Increase funding to peak and advocacy organisations to ensure marginalised voices are heard in public and policy debate

Public debate in Australia is heavily influenced by well-resourced interests. These powerful voices often dominate, and communities and groups affected by poverty, disadvantage and marginalisation can sometimes struggle to be heard. One of the most significant factors that affect a community or people's capacity to engage in effective advocacy is the resources available to it. Yet over the past five years we have seen significant funding cuts and defunding of organisations that represent or are focussed on Aboriginal and Torres Strait Islander peoples, LGBTI people, young people, refugees and migrants, people experiencing homelessness or struggling in the housing market and other disadvantaged people and communities.

**Recommendation 8** In order to ensure that everyone's voice is heard in our public debate, peak bodies and advocacy organisations representing people facing disadvantage should be adequately funded.

*Costing: \$10 million (\$10 million in 2021-22)*

## 4. Social security

### Key Messages

- Our income support system should support people in financial need, ensuring that everyone has enough to cover the cost of essential goods and services. Current rates of income support for people who are looking for paid work, studying, caring for children or who have an illness or disability are inadequate to cover basic needs.
- This budget should address the most severe poverty in Australia by increasing the single rates of Newstart, Youth Allowance and related payments by at least \$95pw.
- To reduce the number of children living in poverty, a Single Parent Supplement should be established (in conjunction with the \$95pw increase in allowances) and wage indexation restored to Family Tax Benefit.
- A Social Security Commission should be set up to advise the parliament on income support payment settings, including adequacy, to help ensure payments maintain pace with community living standards.
- Paternalism should be removed from income support policy, including the abolition of compulsory income management and cashless debit cards.
- Reforms to improve access to income support payments, ameliorate the impacts of robodebt and allow people to retain more of their income received from paid work should also be pursued.


### 4.1 Introduction

Seven in ten of us will live in a household that receives social security at some stage of our lives.<sup>7</sup> Our social security system is one of the most important pieces of civic infrastructure we have.

Our social security system should be a source of great pride, given its critical role in our society. However, we have witnessed a consistent undermining of our social security system through budget cuts, increased conditionality tied to payments, and unfair criticism of people receiving social security that implies they are deficient in some way.

---

<sup>7</sup> Wilkins, R (2017): The household, income and labour dynamics in Australia survey: Selected findings from waves 1 to 15, The 12th Annual Statistical Report of the HILDA Survey, Melbourne Institute: [Applied Economic & Social Research, Melbourne, p40.](#)



'Robodebt' has caused much harm and distress across the community. Despite the government's recent announcements, we call for the complete abolition of robodebt. People who have paid money to the Commonwealth should have their debts reviewed. The government must replace robodebt with a fair, accurate and humane system of debt recovery. We have not been able to cost this measure, but it must be a high priority in 2020.

We are concerned about the low rate of access to the Disability Support Pension, which is forcing people to access an allowance, despite their limited capacity to get paid work. Such reform is outside the scope of this submission, but we note that broader reform of the income support system is required to remove rules that unfairly restrict equitable access to the Disability Support Pension for people who have a chronic illness or disability.

Below we outline measures designed to strengthen our social security system to ensure it best achieves its goal of preventing poverty and deprivation. These measures put the dignity of people first and facilitate access to income support for all who need it.

## 4.2 Raise the Rate to reduce poverty for the 850,000 people on allowance payments

The biggest risk to living in poverty in Australia is to receive Newstart, Youth Allowance or another allowance as your sole source of income.<sup>8</sup> These payments have not been increased in real terms in 25 years and trap people in poverty. They must be raised as a matter of urgency.

ACOSS has updated the figure by which single rates of allowances should increase, from \$75 to \$95 pw. ACOSS based its \$75 pw figure on the gap identified by the Social Policy Research Centre (UNSW) budget standards modelling in 2016.<sup>9</sup> As such, ACOSS has indexed the budget standard for a single unemployed person in line with wage movements since 2016 (median full-time nonmanagerial total earnings) and arrived at a new figure of \$95 pw.

**Recommendation 9** Maximum rates of Newstart, Youth Allowance and related payments for single people should be raised by at least \$95pw and these payments should be indexed to wage movements. This immediate increase should apply to:

1. Newstart Allowance (including the single parent rate)
2. Youth Allowance (both away from home rates for student/apprentice and Other)
3. Austudy, Abstudy
4. Sickness Allowance
5. Special Benefit
6. Widow Allowance
7. Crisis Payment.

*Costing: \$3,758 million (\$3,840 million in 2021-22)*

---

<sup>8</sup> [ACOSS and UNSW Sydney, Poverty in Australia 2017](#)

<sup>9</sup> Saunders, P and Bedford, M (2017): [New minimum income for healthy living budget standards for low-paid and unemployed Australians, Social Policy Research Centre, Sydney.](#)



### 4.3 Establish a Single Parent Supplement

More than one in six children live in poverty, with children in single parent families at highest risk of living in a household that cannot afford the essentials.<sup>10</sup> Government policy changes have reduced the incomes of single parent families, which has led to an increase in child poverty rates (now sitting at 17.2%). These cuts also saw poverty among single parents without paid work almost double to 59% following the transfer of single parents onto Newstart Allowance when their youngest child turns eight. There are now almost 300,000 children living in households that receive Newstart or Youth Allowance. Payments for children should be sufficient to cover their essential costs, and should rise as they grow older and become more expensive.

**Recommendation 10** Family payments for single parent families should be increased:

1. Family Tax Benefit Part B should eventually be replaced with a Single Parent Supplement for single parent families.<sup>11</sup> As an immediate step, this supplement should be provided to single parents receiving Newstart at a rate of at least \$20 pw (to be paid in conjunction with a \$95 pw increase to Newstart) to ensure their incomes do not fall when their youngest child turns eight.
2. The supplement should be benchmarked to the costs of children of different ages and reflect the diseconomies of scale experienced by single parents, and indexed to wages.

*Costing: \$63 million (\$65 million in 2021-22)*

---

<sup>10</sup> [ACOSS and UNSW Sydney, Poverty in Australia 2018](#)

<sup>11</sup> The existing Part B payment for couples would be integrated with the Family Tax Benefit Part A payment.

## 4.4 Restore indexation of Family Tax Benefits, and link the maximum rate of Family Tax Benefit Part A to wage growth

Family payments have been eroded over time because of cuts to indexation and the freezing of payment rates. It is crucial that family payments maintain pace with the cost of living, which requires reform of the indexation formula.

**Recommendation 11** Rates of Family Tax Benefits should be unfrozen and the maximum rate of Family Tax Benefit Part A should be linked to wage growth to ensure it increases in line with community incomes.

*Costing: \$630 million (\$644 million in 2021-22)*

## 4.5 Let's get social security right – establish a social security commission

The setting of social security payment rates has largely been a political process. An independent body to advise the parliament on the setting of payment rates and payment settings would enable a fairer approach to social security design with rates set by reference to household need.

**Recommendation 12** A social security commission should provide independent expert advice to the Parliament about the setting of social security payment rates (including family payments), covering adequacy, means test settings and indexation.

*Costing: \$4 million (\$4.1 million in 2021-22)*

## 4.6 Abolish compulsory Cashless Debit Card and Income Management

More than 30,000 people across the country have their social security payment quarantined largely because of where they live, the type of payment they receive and the length of time they have received their payment. This means they lack access to cash to meet regular expenses such as school lunches for children. There is no reliable evidence that this kind of intervention improves people's lives. The government must abolish mandatory income quarantining and genuinely engage with people affected about how to resolve issues affecting them and their communities.

**Recommendation 13** Compulsory income quarantining should cease. People should be given the option to continue cashless debit or income management on a voluntary basis or leave the schemes.

*Revenue neutral: Savings to be re-invested into supporting community-led programs*

## 4.7 People who are unemployed should have a \$4,000 income bank

People receiving unemployment payments should be able to earn more income before losing payments. Unlike students and people on the Age Pension, people receiving Newstart and Youth Allowance (Other) start to lose payment after earning relatively small amounts of income. Not only does this reduce the benefit of getting some paid work, it increases the risk of social security debt as reporting income accurately each fortnight is difficult, especially when working in casual employment. A \$4,000 'income bank' would allow people to smooth earnings out over time, prevent the accrual of debt and encourage people to take up part-time work.

**Recommendation 14** An 'income bank' should be introduced for recipients of allowance payments:

1. The working credit scheme for Newstart and Youth Allowance (Other) recipients should be replaced with a \$4,000 income bank that accrues from the day they start receiving the allowance;
2. The income bank would reach the full amount after six months if the person has been without paid work. Costing: \$320 million (\$327 million in 2021-22)

*Costing: \$320 million (\$327 million in 2021-22)*

#### 4.8 Reducing waiting periods for newly arrived migrants

Recent legislation imposes a waiting period for income support of up to four years for many newly arrived migrants, and a one-year wait for Family Tax Benefit. Excessive waiting periods prevent people in financial hardship from receiving income support they need. Our payment system should be based on need, not arbitrary criteria.

**Recommendation 15** Waiting periods for newly-arrived migrants should be reduced:

There should be no waiting period for newly-arrived migrants to access Family Tax Benefit, Paid Parental Leave, Special Benefit or Carer Allowance.

*Costing: \$60 million (\$61 million in 2021-22)*

#### 4.9 Abolish the one week wait for parenting payments and Youth Allowance (Other)

The one week waiting period for parenting payments and Youth Allowance should be abolished because it deprives people in urgent need, including recently separated single parents, of income support.

**Recommendation 16** Parents and young unemployed people should receive payment (or be back-paid to) the date they lodged their claim or intent to claim.

*Costing: \$60 million (\$61 million in 2021-22)*

## 4.10 Make Crisis Payment accessible to people escaping domestic violence

Our social security system can make it difficult for women escaping domestic violence to get the urgent financial support they need. Relatively simple changes would go a long way to helping women escape. We support the National Social Security Rights Network recommendation for access to Crisis Payment.

**Recommendation 17** Crisis Payments should be made more accessible to domestic violence survivors:

1. Crisis Payment should be payable to any person suffering severe financial hardship who has recently experienced family and domestic violence, regardless of place of residence;
2. The Payment should be increased to four weeks of the single pension rate (currently \$1,640);
3. People should be able to receive Crisis Payment up to six times in 12 months;
4. The period for claiming Crisis Payment should increase from seven to 14 days.

*Costing: \$30 million (\$31 million in 2021-22)*

## 4.11 Abolish the Liquid Assets Waiting Period

The Liquid Assets Waiting Period (LAWP) requires people to wait much longer for their first income support payment if they have liquid assets exceeding \$5,500 (if single with no dependents) or \$11,000 otherwise. This forces people to draw down the savings they are likely to need later to deal with financial emergencies. It should be replaced with a comprehensive means test.

**Recommendation 18** The Liquid Assets Waiting Period should be abolished and replaced with a comprehensive means test for payments to which it applies.

*Costing: \$30 million (\$31 million in 2021-22)*

## 4.12 Align the means test for Special Benefit with that of other allowances

The means test for Special Benefit is much more severe than that of other payments. It takes account of in-kind support, and has a dollar-for-dollar cut out, which was removed from other allowances in the 1990s. There is no justification for such a harsh means test for Special Benefit, and it should be reformed.

**Recommendation 19** Given the low rate of the payment and that most people receiving Special Benefit are in deep financial disadvantage, its means test should be aligned with that of other allowances.

*Costing: \$20 million (\$20 million in 2021-22)*

## 4.13 Strengthen the capacity of Centrelink to meet need

Centrelink plays a critical role in millions of people's lives. It must be adequately staffed and operate in the best interests of all who need income support.

**Recommendation 20** The quality and accessibility of Centrelink services should be improved:

1. The complement of permanent staff in Centrelink should be substantially increased and reliance on contractors and call centres reduced;
2. A Centrelink Domestic Violence line should be established to improve access to DV related supports and payments.

*Costing: \$40 million (\$41 million in 2021-22)*

## 4.14 Receive an allowance? Get a Low-Income Health Card

Many people receiving Centrelink allowances are unaware that they are entitled to a Low-Income Health Card. As such, they miss out on a range of state-based rebates and concessions. The fortnightly income test ceiling for these payments is just below that of the health card. It makes sense to align these and reduce the administration burden for both applicants and Centrelink.

**Recommendation 21** Health care card and income support income test should be aligned and people eligible for allowance payments including Newstart, Youth Allowance, Special Benefit, Austudy and Abstudy should automatically receive a Low Income Health Card.

*Costing: \$10 million (\$10 million in 2021-22)*

## 5. Improve job opportunities for people out of paid work

### Key Messages

- With unemployment now rising (and not expected to fall for at least another year) and an average of 19 applicants for each job (including 8 people who are unemployed or underemployed), it is far from easy to find paid work.
- A growing share of people on unemployment payments is either unemployed long-term (64%), or faces other barriers to employment such as a disability, age or racial discrimination, or caring roles.
- The jobactive program is too under-resourced and compliance-focussed to offer the personalised support many participants need. Consistent with the Government's Expert Panel review, it should be replaced by a scheme that promotes personal agency, and offers the regular work experience, training and other supports people need.
- Ineffective work experience schemes including Work for the Dole and Youth Jobs Path should be replaced by an expanded wage subsidy scheme.
- A broad-based career support scheme should be established for young people, parents, carers and older people who need to refresh their careers, to replace Parents Next and the Career Transition Assistance scheme.
- A local employment partnerships scheme should be introduced to assist people with complex needs obtain employment.

### 5.1 Make jobactive work for people disadvantaged in the labour market

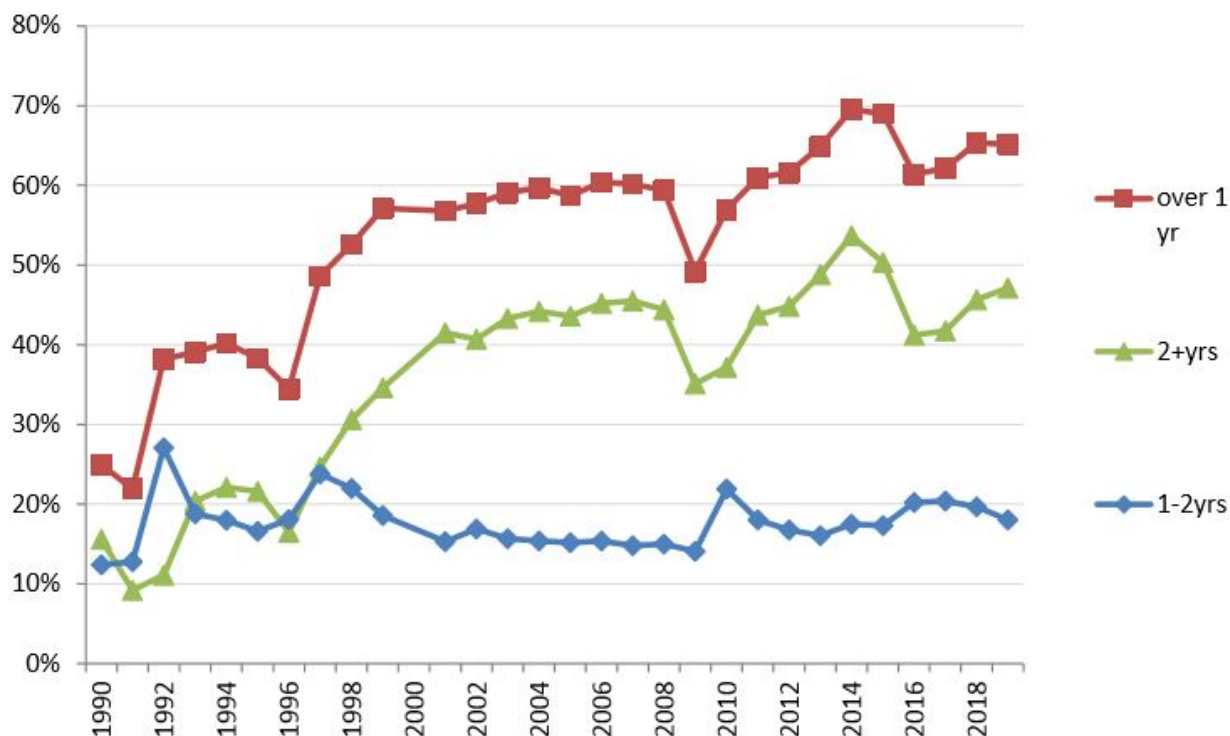
The employment services system is not working for the growing share of recipients of Newstart and Youth Allowances- currently 64%- who have received those payments for over a year.<sup>12</sup> In addition, as social security policies push more people from pension payments onto these allowances, they are increasingly drawn from populations that struggle to find paid work, including people with a partial work capacity (40%), workers over 45 years (43%), Aboriginal and Torres Strait Islander people (13%), people from

---

<sup>12</sup> ACOSS and Jobs Australia (2018): [Faces of unemployment, ACOSS and Jobs Australia, Sydney](#)



culturally and linguistically diverse communities (19%) and sole parents (13%).



**Figure 2: Profile of unemployment benefit recipients by payment duration (% of all recipients)**

While the official unemployment rate is close to the Reserve Bank’s estimate of ‘full employment’ (5%), the labour market is still very tough for people with limited skills or paid work experience. For every job vacancy there are 19 applicants, including eight people who are unemployed or looking for more paid hours.

Yet our employment services system is designed on the assumption that finding employment is easy for those with the incentive to do so. The compliance system is among the toughest in the OECD (with 2.7 million payment suspensions imposed through 2018-19), while Australia spends well under half the average OECD expenditure on employment assistance.<sup>13</sup>

The main Australian Government employment program – jobactive – is not meeting the needs of people disadvantaged in the labour market. This is

<sup>13</sup> OECD (2019): [Social expenditure database \(SOCX\) website](#), accessed 16 December 2019

confirmed by the findings of the Government's Employment Services Expert Panel and our own survey of people's experiences on the program.<sup>14</sup>

The average expenditure per place in jobactive for people unemployed long-term or assessed as disadvantaged is \$2,200 to \$3,000 and the average caseload is 140 people per consultant.<sup>15</sup> Inadequate investment in employment services and an excessive focus on compliance mean that most people receive a standardised, low-level service.

The Expert Panel recommended that a new employment services system be established, with a 'digital services' stream for people less disadvantaged in the labour market and an enhanced services stream for people unemployed long-term and those assessed as more disadvantaged. Savings from the implementation of 'digital services' were to be re-allocated to enhanced services to reduce caseloads and offer more scope for providers to invest in training, work experience and other personalised support. It also proposed a new licensing system for employment services to lift the quality of services, and that local partnerships with employers and other community services should be encouraged in disadvantaged regions.

We welcome the Government's decision to trial the new system in two regions for two years, but believe earlier steps can and should be taken to improve the intensity and flexibility of jobactive services.

## **Recommendation 22** Transition jobactive towards a more personalised system of support for people disadvantaged in the labour market

In preparation for a new employment services system, from July 2020 support for people unemployed long-term or otherwise disadvantaged in the labour market through the jobactive program should be improved by:

1. Increasing six-monthly administrative payments to \$500 (\$625 with regional loading) in return for substantially reduced caseloads;
2. Annual top-ups of the one-off Employment Fund for people unemployed long-term, at half the existing (one-off) rates.

*Cost: \$280 million (\$350 million in 2021-22)*

---

<sup>14</sup> Employment Services Expert Panel (2019): [I want to work, Department of Jobs and Small Business, Canberra.](#)

<sup>15</sup> Department of Employment, Skills and Small Business (2019): Response to Senate Estimates Question No. EMSQ19001229, Department of Employment, Skills and Small Business, Canberra; Employment Services Expert Panel (2019): op. cit.

## 5.2 Replace ineffective programs with paid work experience in regular job

In 2018-19, approximately \$55 million was spent on the Work for the Dole program and another \$200 million was expected to be spent on the Youth Jobs Path program. A key weakness of these schemes is that most of the work experience provided is not in regular paid employment, and people receive well under minimum hourly rates of pay for their labour. Further, training offered to participants is standardised and disconnected with work experience (employability skills training) or of poor-quality and unaccredited (Work for the Dole).

An evaluation of Work for the Dole in 2014 found that the average impact of participation in the program on the probability of paid employment was just two percentage points.<sup>16</sup>

Wage subsidies for temporary paid employment in regular paid work are more effective in improving people's job prospects of people unemployed long-term, and they ensure the person is paid properly for work done. Well-targeted wage subsidies often pay for themselves through future savings in unemployment benefits.<sup>17</sup> Yet unlike Work for the Dole and Youth Jobs Path, there is no longer a separate budget allocation for wage subsidies.

---

<sup>16</sup> Department of Jobs and Small Business (2015): [Work for the Dole 2014-15 evaluation report](#), Department of Jobs and Small Business, Canberra.

McGuinness, F (2014): [Where is the Work Programme most successful?](#), House of Commons Library, London.

<sup>17</sup> Department of Employment (2014): Effectiveness of wage subsidies in Job Services Australia, Department of Employment, Canberra.

## Recommendation 23 Expand paid work experience in regular jobs for people unemployed long term

1. From July 2021, Work for the Dole and Youth Jobs Path internships and wage subsidies, and all other wage subsidy schemes, should be replaced with a single scheme providing appropriately-paid work experience and training in regular jobs, with an additional 60,000 places in 2021-22 for people unemployed long-term (regardless of age) financed through dedicated Employment Fund credits
2. The impact of the scheme on employment and training outcomes should be evaluated, for example by implementing it in stages and comparing results for participants and nonparticipants from the same target groups.

*Costing: \$0 million (\$130 million in 2021-22)*

### 5.3 Career support for people without recent experience of paid work

Many people who have spent years caring fulltime for family members, young people seeking paid work for the first time, and older people who need to refresh their careers, would benefit from skills assessment and career counselling. This would help them identify the occupations that suit their skills and aspirations, and the training they need to secure employment in that line of work. Previous programs such as the Jobs Education and Training (JET) scheme and the Employment Preparation program were effective in identifying and strengthening 'latent skills' and improving future employment prospects, at modest cost to the budget.<sup>18</sup> These schemes offered career counselling, a fund for service providers to invest in vocational training tailored to individual needs, and assistance to obtain child care when needed.

Career support services are available for young people through the Transition to Work program for young people and the Career Transition Assistance scheme for older workers, but it is not more widely available through jobactive because providers are not resourced to offer it. Further, providers have few financial incentives to place people in vocational training unless there is a job available now that requires those particular qualifications. Participants in the program are generally not permitted to undertake more than a year's fulltime education or training while they

---

<sup>18</sup> Department of Employment and Workplace Relations (2006): Employment assistance, a net impact study, Department of Employment and Workplace Relations, Canberra.

remain on Newstart Allowance, and must generally search for the standard 20 jobs a month and accept casual job offers while participating in part-time courses. All of these factors make it hard for many people obtain the career support and training they need to secure stable employment.

These services are also offered, to a degree, to participants in Parents Next (mainly sole parents with children under six years of age), but that program has major flaws including paternalistic assumptions that sole parents and their children are at risk of 'welfare dependency' and need help with parenting skills, requirements to participate in the program when the youngest child is just six months old, and widespread payment suspensions under the Targeted Compliance Framework.<sup>19</sup>

## **Recommendation 24** Introduce a broadly based Career Transitions Scheme

1. From July 2021, a broadly based Career Transitions Scheme should be introduced either within or outside the jobactive system, to offer career counselling, skills assessment, and access to suitable training at an early stage of unemployment. The scheme would be offered to the following groups of working-age income support payment recipients who are seeking to enter or return to paid employment, with priority to those who have not had paid work in the last 12 months:
  - primary carers of children or people with disabilities who are preparing for paid employment, in place of the Parents Next program;
  - older people (50 years or over) who need to refresh their skills and careers, in place of the Career Transitions Assistance scheme;
  - young people (under 25 years) who have not completed Year 12 or equivalent education and are not participating in the Transition to Work program, in place of Youth Path employability training;
2. For those identified as significantly disadvantaged in the labour market, career counselling should be integrated with other forms of assistance, including where appropriate paid work experience in regular jobs.
3. Restrictions on education and vocational training for recipients of unemployment payments should be eased, and employment service

---

<sup>19</sup> ACOSS (2019): The future of ParentsNext: [Submission to Senate Community Affairs Committee, ACOSS, Sydney.](#)

providers encouraged to invest in training that improves their chances of employment over the medium term (2-3 years).

4. The impact of the scheme on employment and training outcomes should be evaluated, for example by implementing it in stages and comparing results for participants and nonparticipants from the same target groups.

*Costing: \$0 million (\$100 million in 2021-22)*

## 5.4 A Local Partnerships for Employment scheme for people with complex needs

A small minority of people who are unemployed have multiple or complex barriers to employment which require a qualitatively different service: a coordinated or partnership approach in which an employment service partners with local community services and employers to meet a range of needs together in order to prepare them for employment, and support them (and their employer) to sustain it.

An employment services system grounded in competition to achieve short-term employment outcomes is unlikely to provide this kind of service.

Examples of funding models designed to encourage and support local partnerships working include the Pathways to Recovery program for people with mental illness, and the 'placed based' initiatives under the former Building Australia's Future Workforce strategy, including the Local Connections to Work program for people unemployed for more than two years.<sup>20</sup> The government is currently trialling a partnership approach to employment services in highly disadvantaged regions.

One way to encourage partnership working at scale is to give local service providers who elect to collaborate to assist a group of clients with complex needs the tools and resources to do so, provided they offer assistance without discrimination to groups of unemployed people who are assessed as having complex needs. In this way national 'targeting' can be combined with local flexibility.

---

<sup>20</sup> Department of Health and Ageing (2012): Partners in recovery- Coordinated support and flexible funding for people with severe and persistent mental illness with complex needs, Department of Health and Ageing, Canberra; Swami, N (2018): The effect of homelessness on employment entry and exits: [Evidence from the journeys home survey, Melbourne Institute Working Paper No 1:18](#). Department of Human Services (2013): Building Australia's future workforce place-based measures, Senate Community Affairs Committee response to Question on Notice No 13:421, Department of Human Services, Canberra; Department of Human Services (2011): Better futures, local solutions grants program guidelines, Department of Human Services, Canberra.



The appropriate funding mechanism for a partnership service is closer to a traditional grants scheme than the present purchasing model for employment services, which prioritises competition and payment for performance. To give the scheme a clear focus on employment outcomes, bonus payments should be made where people obtain, and keep, paid employment.

Ideally, State and Territory governments, as well as the Commonwealth, would contribute to the cost of a local partnerships program. This would give all governments 'skin in the game' so that they make room for local services they fund under other programs to work together to assist people with complex needs to find employment.

### **Recommendation 25** Establish a local partnerships for employment trial scheme

In cooperation with state and local governments, trial a 'local partnerships for employment' scheme in which employment services, employers, training organisations, and community and health services, collaborate to assist the minority of unemployed people facing entrenched labour market disadvantage (such as people with severe mental illness, chronic homelessness, and people with lived experience of incarceration).

*Costing: \$0 million (\$50 million in 2021-22)*

## **5.5 Shift the dial from compliance to agency**

Activity requirements that keep people engaged with the labour market can speed transitions to paid employment.<sup>21</sup> However, onerous requirements and penalties add little or no value to employment assistance and detract from people's efforts to find employment that is more suitable and stable.<sup>22</sup> 'Tougher' compliance systems also have a price: anxiety, destitution, diversion of resources, and loss of trust in employment services.

Activity requirements for unemployed people in Australia are among the strictest in the OECD.<sup>23</sup> They must typically agree to a job plan, attend

---

<sup>21</sup> Martin, J (2015): '[Activation and active labour market policies in OECD countries: Stylised facts and evidence on their effectiveness](#)', *IZA Journal of Labor Policy*, 4:4, 2015, SpringerOpen, New York.

<sup>22</sup> Taulbot et al. (2018): '[Jobseeker's Allowance benefit sanctions and labour market outcomes in Britain 2001-14](#)', *Cambridge Journal of Economics*, 42:5, 2018, Oxford Academic, Oxford. Department of Education, Employment and Workplace Relations (2008): APM evaluation, Department of Education, Employment and Workplace Relations, Canberra; Clement, S and Andersen, J (2006): Availability and incentive effects: A research review, Danish Ministry for Employment, Copenhagen.

<sup>23</sup> Langenbucher, K (2015): '[How demanding are eligibility criteria for unemployment benefits?: Quantitative indicators for OECD and EU countries](#)', *OECD Social, Employment and Migration Working Paper No. 166*, Paris.

regular appointments with their jobactive service, apply for 20 jobs each month, and for three to six months of each year of unemployment participate in Work for the Dole (working for their benefits for 15 to 25 hours a week) or other 'annual activities' such as part-time work, part-time study, voluntary work, or a wage subsidy scheme.

The default requirement to search for 20 jobs a month has been widely criticised. It does not promote effective job search and employers receive too many unsuitable applications. These problems are acute in regions with high unemployment, and for people who face discrimination or disadvantage in the labour market, such as many people of mature-age, people with disabilities, and parents.

The Expert Panel proposed that the existing activity requirements be replaced by a 'points system' that takes greater account of people's diverse circumstances and barriers to employment, and the range of activities that contribute to finding paid work. This is a step in the right direction, but it is vital that the new system is very simple in design and operation, so that people understand what is required and detailed and intrusive monitoring is unnecessary.

Under the current system, if people do not fully comply with requirements, their benefits can be suspended and they may ultimately lose up to four weeks' payments. Under the 'Targeted Compliance Framework' (TCF), the number of longer (2 to 8 week) penalties applied has declined (so far), but a much larger number of shorter payment suspensions (2.7 million in 2018-19) has been imposed.<sup>24</sup> While most people facing payment suspensions quickly re-engage and receive their next payment on time, payment suspensions cause widespread anxiety among people affected and distract providers from efforts to find them paid employment. Three quarters of suspensions did not result in a 'demerit point' in any event, meaning the person was found not be in breach of their activity requirements (or to have a 'reasonable excuse').

The TCF is a blunt and brutal compliance system. Participants who do not report that they have undertaken an activity face rapid, automated suspension of payments. Employment service providers lack discretion to not impose demerits, and Centrelink lacks discretion to not apply financial penalties. A fundamental flaw of the system is that non-government providers and algorithms in effect take on the role of Services Australia (and

---

<sup>24</sup> Department of Employment, Skills, Small and Family Business (2019): [TCF Public Data Report - Full Year 2018-19, Department of Employment, Skills, Small and Family Business, Canberra.](#)



the review and appeals system) to decide whether people should continue to receive their income support payments.

### **Recommendation 26** Replace harsh compliance arrangements with a strengths-based approach.

The employment services system should be re-oriented away from compliance with activity requirements towards positive help and agency for unemployed people, by:

1. Restoring the role of Centrelink in assessing compliance with activity requirements, including the first 5 'demerits';
2. Restoring discretion for employment services to excuse (not report) breaches, and Centrelink to waive penalties where appropriate;
3. Reviewing the appropriateness of activity requirements for people with caring roles, disabilities, and other major barriers to employment (for example, referrals to evening work and appointments on school holidays for sole parents);
4. Reducing default job search requirements (below 20 job searches a month) for people facing higher than average barriers to employment (including principal carers, people with partial work capacity, older people, and people in regions with high unemployment);
5. Removing requirements to work for benefits (Work for the Dole), and social requirements attached to benefits (including children's attendance at playgroups or school, and drug treatment);
6. Restoring default hours for compulsory annual activity requirements (mutual obligation) to 15 hours a week instead of the current 25 hours.

*No costing available*

## **5.6 Replace the Community Development Program**

The Community Development Program (CDP) is failing to improve employment prospects in remote communities and it is harming participants. In just two years, 350,000 financial penalties were imposed in a program assisting 33,000 people. Unlike the former Community Development Employment Program (CDEP), it does not provide waged work and therefore does not address the key reason for unemployment in these areas: a lack of local employment opportunities.

Over \$200 million a year is being spent on a scheme that is unlikely to improve people's employment prospects and diverts the resources of local employment services to administration of social security compliance, and

providing unpaid 'work for the sake of it' instead of properly paid jobs and assistance to prepare or search for employment.

We endorse the proposal from the Aboriginal Peak Organisations Northern Territory and others to replace CDP with a 'Fair Work Strong Communities' program, as a workable alternative that would empower local communities and generate jobs.<sup>25</sup>

### **Recommendation 27** Replace the Community Development Program with a Fair Work and Strong Communities scheme

The Community Development Program should be replaced by a new, community-led employment services scheme for people in remote Aboriginal and Torres Strait Islander communities along the lines of the Remote Development and Employment Scheme proposed by the [Fair Work Strong Communities Alliance](#), with the following features:

1. Entitlements to social security payments are maintained;
2. Activity requirements are no stricter than those applying to unemployed people generally;
3. At least 12,000 new paid jobs in remote communities are wholly, or predominantly, created in Aboriginal and Torres Strait Islander organisations;
4. Governance arrangements are independent, legislatively based and Aboriginal-led;
5. Flexibility for local people to set objectives within the long term goals of the scheme and to adapt program settings to local conditions;
6. No direct or indirect discrimination against Aboriginal and Torres Strait Islander people.

*Costing: \$0 million (\$250 million in 2021-22)*

---

<sup>25</sup> Aboriginal Peak Organisations Northern Territory (2017): [Fair work and strong communities: Proposal for a remote development and employment scheme, APONT, Darwin](#). Fair Work and Strong Communities Alliance (2019): [Fair work and strong communities alliance website](#), accessed 16 December 2019

## 6. Climate, extreme weather and energy

### Key Messages

- To limit the impacts of dangerous climate change, the world and Australia needs to rapidly reduce its emissions. Australia should set emissions reduction targets of zero net emissions before 2050 and at least 45% by 2030, and transition the energy sector faster.
- We can simultaneously reduce emissions and improve energy affordability and climate resilience for people on low incomes by targeting investment in energy efficiency, solar and batteries for low-income households; remove solar subsidies from electricity bills and improve access to energy literacy.
- We should also be planning now for a just transition for workers and communities being affected now and in the future as a result of the shift from fossil fuels to clean energy.
- Even if we rapidly reduce emissions, the world has already locked in significant levels of pollution. Policies are needed to build resilience of community sector organisations and reduce the impact of climate change on people experiencing poverty and disadvantage to reduce their vulnerability to climate change.
- We should establish a program to support community sector organisations to adapt to climate change, be better prepared for emergencies and disasters, improve resilience of their clients, and ensure continuity of care for vulnerable people.

### 6.1 Introduction

Extreme weather events like heatwaves, fires, floods and storms are increasing as a result of the climate crisis, threatening people's homes, livelihoods, health, quality of life, employment and the environment that sustains us.

Those dependent on low incomes and experiencing disadvantage are more vulnerable to climate change impacts because they are less able to cope, adapt and recover. More people are likely to face hardship as extreme weather events increase and intensify, therefore failure to limit further climate change will cause greater poverty and inequality in the future.

To limit the impacts of dangerous climate change, the world and Australia needs to rapidly reduce its emissions. Australia should set emissions reduction targets of zero net emissions before 2050 and at least 45% by 2030.

While there are likely to be some costs as we transition to a clean economy, these costs increase the longer we delay creating intergenerational inequity. Where there are costs, those most at risk of disadvantage must be supported, including those on low incomes.

The energy sector is Australia's largest single emitter of greenhouse gases and must be a key part of Australia's contribution to limit global warming. It also has better access to affordable clean technology than many other sectors, so it can and should transition faster. This must be done in an affordable and equitable way. High electricity prices, inequitable clean energy policies, and uneven distribution of distributive energy such as household solar and batteries, mean low-income households are struggling to heat and cool their homes.

People on low incomes pay disproportionately more of their income on energy bills compared to other households, and lack choice and control over their energy use. Energy affordability and equity measures are needed to relieve financial stress and support the rapid transition to cleaner energy.

Even if we rapidly reduce emissions, the world has already locked in significant levels of pollution. Policies are needed to build resilience of community sector organisations and reduce the impact of climate change on people experiencing poverty and disadvantage to reduce their vulnerability to climate change.

## 6.2 Invest in energy efficiency for low-income households

Recent data released by the Department of Environment and Energy found new homes have an average rating of 6.1 stars whereas Australia's 9.5 million existing homes have an average rating of only 1.7 stars. These homes are too cold in winter and too hot in summer. Poor energy efficiency is leading to high energy bills or energy deprivation resulting in serious health and financial stress. People on low incomes, especially renters, lack choice and control to improve energy efficiency of their homes.

Modelling undertaken by ANU for ACOSS and the Brotherhood of St Laurence (BSL) found that a one off investment of \$5,000 on efficiency upgrades such as hot water system, heating and cooling appliances, insulation, lighting for the average house could cut energy bills by up to \$1,139 per annum depending on the region.<sup>26</sup> St George Community Housing retrofitted 1400

---

<sup>26</sup> ACOSS and Brotherhood of St Laurence (2018): [Energy stressed in Australia, ACOSS and BSL, Sydney.](#)

community housing places across NSW, saving tenants an average of \$570 each year.

There are multiple benefits of investing in energy efficiency of existing homes including energy bill reduction, improved health and wellbeing, reduced peak demand, job creation and reduced emissions.

COAG Energy Council in January 2019 agreed to improve the energy efficiency of existing homes in line with the goal of zero emissions homes, and in November 2019 agreed a three-year work plan to develop a national framework and measures to improve the energy efficiency of existing homes, including a rating tool and mandatory energy efficiency standards for rental properties. In the meantime, the federal Government could invest in two initiatives that would start the ball rolling to improve the energy efficiency of existing homes targeting people on low incomes.

### **Recommendation 28** Improve energy efficiency of existing homes for those on low incomes

1. The federal government should partner with local councils to provide access to energy efficiency audits and upgrades for low-income owner occupiers. The program would work with local suppliers to create local jobs, reduce energy bills, improve health and wellbeing and reduce emissions;

*Costing: Revenue neutral (\$418 million<sup>27</sup> in 2020-21 and \$1,254 million in 2021-22 drawn from the Climate Solutions Fund)*

2. The federal government should provide funds to match state and territory governments \$1 for \$1 to undertake an assessment of housing stock and then invest in energy efficiency upgrades or replacement of poor housing for public, Aboriginal and Community housing dwellings;

*Costing: Revenue neutral (\$84 million<sup>28</sup> in 2020-21 and \$251 million in 2021-22 drawn from the Climate Solutions Fund)*

---

<sup>27</sup> ANU research for ACOSS (see *ibid*), finds there are approximately 1.1 million low-income households (quintile 1). ACOSS has assumed an investment of \$3,800 per house (to invest in a combination of more efficient hot water, heating/cooling, lights, gap sealing and insulation. Noting some houses will require slightly greater investment and some will require slightly less). ACOSS has assumed the program will ramp up over four years and has allocated 10% of required budget for 1.1 million homes in 2020/21 and 30% in 2021/2022, 30% in 2022/2023 and 30% in the final year.

<sup>28</sup> Based on ABS data, ACOSS has estimated approximately 440,000 social housing dwellings. ACOSS has assumed an investment of \$3,800 per house (to invest in a combination of more efficient hot water, heating/cooling, lights, gap sealing and insulation. Noting some houses will require slightly greater investment and some will require slightly less). ACOSS has assumed the program will ramp up over four years and has allocated 10% of required 440,000 homes in 2020/21 and 30% in 2021/2022,

3. All states and territories implement mandatory energy efficiency standards in rental properties by 2023 and, if necessary, the federal government provide financial support to landlords to support upgrades.

*Costing: \$0 (\$0 million in 2021-22)*

## 6.3 Aboriginal and Torres Strait Islander Communities Clean Energy Fund

Remote Aboriginal and Torres Strait Islander communities often have to rely on expensive carbon-intensive diesel to provide power for local people. Investment in firm renewable energy and energy efficiency in remote communities, through an Aboriginal and Torres Strait Islander Communities Fund, would not only reduce carbon emissions, but would reduce energy bills, create jobs, and improve health and wellbeing. The proposed fund could be utilised in conjunction with Clean Energy Finance Corporation (CEFC) low interest loans and in partnership with state and territory governments.

**Recommendation 29** Establish an Aboriginal and Torres Strait Islander Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities<sup>29</sup>

*Costing: Revenue neutral (\$500 million in 2020-21 and \$500 million in 2021-22 drawn from the Climate Solutions Fund)*

## 6.4 Access to energy information for people who may be experiencing disadvantage

Increasingly, energy users are being required to actively engage in and manage their home energy usage if they want to lower their energy bills. While there is evidence that some at-risk households do engage actively in the energy market to find the best deals, other people face limits and barriers. The ACCC, in its report Restoring electricity affordability and Australia's competitive advantage, recommended establishing a grant

---

30% in 2022/2023 and 30% in the final year. ACOSS has then halved the costing, assuming states match the investment.

<sup>29</sup> See for example federal government jointly funded \$55 million program with Northern Territory Government to provide 10 megawatts of solar and battery to 28 different remote communities and result in a reduction of diesel by 15%

scheme for consumer and community organisations to provide targeted support to assist vulnerable consumers to improve energy literacy.<sup>30</sup>

**Recommendation 30** Match state and territory governments \$1 for \$1 to provide a grant scheme for consumer and community organisations to provide targeted support to assist vulnerable consumers to improve energy literacy and efficiency

*Costing: \$950,000 (\$950,000 in 2021-22)*

## 6.5 Shift the Small-Scale Renewable Energy Scheme off electricity bills

People on low incomes spend disproportionately more of their income on energy bills - 6.4% compared to people on high incomes who spend 1.5%. Unfortunately they cannot afford to invest in measures such as solar and energy efficiency to reduce their bills. Further, non-solar owners pay for the costs of various energy subsidy schemes like the Small-Scale Renewable Energy Scheme (SRES), through cost recovery via electricity bills. While everyone benefits somewhat from the SRES through reducing emissions, people on low-incomes do not benefit as much as people with solar who also reduce their energy bills. While ACOSS is not opposed to renewable energy subsidies, they should be progressive in their implementation and should not be spread across electricity bills where people on low incomes pay disproportionately more of the costs.

---

<sup>30</sup> Australian Competition & Consumer Commission (2018): [Restoring electricity affordability & Australia's competitive advantage](#), ACCC, Canberra.



## Recommendation 31 Shift the Small-Scale Renewable Energy Scheme off electricity bills and on to government budget

Utilise the Federal Government's Climate Solutions Fund to support the SRES, which is contributing directly to emissions reductions. The scheme should be transitioned to provide subsidies for solar, hot water and batteries for low-income homes only, including public, Aboriginal and community housing and low-income owner-occupiers.

*Costing: Revenue neutral (\$1,560 million<sup>31</sup> in 2020-21 and \$950 million<sup>32</sup> in 2021-22 drawn from the Climate Solutions Fund)*

## 6.6 Phase out fossil fuel subsidies

In Chapter 10 (A fairer tax system that supports economic development) we advocate the removal of fuel tax credits for off-road use (except agriculture). These tax credits subsidise the production of carbon pollution – the very thing governments are spending public funds in other parts of the economy to prevent. Revenue raised from these reforms should support a just transition for workers and communities, assist low-income households to access affordable clean energy, and support climate resilience and adaptation.

## 6.7 Just Transition for workers and communities

Some people and communities will experience negative effects from our response to climate change, such as those depending heavily on burning or extracting fossil fuels. Successful transition plans must be place-based, and include developing new economic opportunities, and the skills and support to exploit them.

---

<sup>31</sup> Demand Manager (2019): [Australian rooftop solar subsidy: 2019 outlook, Demand Manager, Sydney.](#)

<sup>32</sup> Assuming the SRES begins to be transitioned to provide subsidies for solar, hot water and batteries for low-income homes only.



## Recommendation 32 Support a just transition for workers and communities

1. Establish a statutory authority responsible for managing the effects of the energy transition including managing coal closures, overseeing worker support, and coordinating plans for regional economic diversity;
2. Establish an industry-wide, multi-employer pooling and redeployment scheme which provides retrenched workers with the opportunity to transfer to roles with renewable or low emission generators as well as remaining fossil fuel generators.

*Costing: \$2 million<sup>33</sup> (\$4 million in 2021-22) (Use revenue from transitioning away from fossil fuels subsidies)*

## 6.8 Help community organisations respond to climate change

Community sector organisations play a critical role in emergencies and disasters, especially for vulnerable people, but are themselves highly vulnerable to extreme weather events. Community organisations must be supported to adapt to climate change and improve organisational resilience to continue to provide critical help to people and communities in times of need.

---

<sup>33</sup> Based on an estimated cost of \$15 million over four years and assuming less funding in the first year as the program is established.

**Recommendation 33** The federal government provide resources to support community sector organisations to adapt to climate change, be better prepared for emergencies and disasters, and ensure continuity of care for vulnerable people, including:

1. Support community sector organisations to undertake sector specific risk assessments and implement disaster management and service continuity plans.<sup>34</sup> Include financial support for social sector peaks to strengthen the community sector specific disaster management tool, establish a community of practice and provide training to community sector organisations to implement;

*Costing: \$1 million (\$1 million in 2021-22)*

2. Provide a grant to support community sector organisations to undertake extreme weather preparedness and response training for staff and volunteers;

*Costing: \$10 million (\$12 million in 2021-22)*

3. Provide funds to support community sector organisations to participate in planning, response and recovery at all levels;

*Costing: \$210 million<sup>35</sup> (\$220 million in 2021-22)*

4. Provide funds to undertake adaptation and preparedness benchmarking specific to community service provision that enable organisations, their funding agencies and insurers to plot progress towards risk reduction, resilience and adaptive capacity.

*Costing: \$390,000 (\$400,000 in 2021-22)*

**Recommendation 34** The Federal Government provide a contingency fund and ensure contracts for service delivery provide greater flexibility to community service organisations and enable them to participate effectively in disaster response and recovery efforts. Specifically, they should include provisions and additional funding that:

- Enable community sector organisations to manage surge capacity to meet the increased demand for services placed upon community sector organisations following an emergency;
- Ensure timely compensation for their contributions to response and recovery efforts;

- Ensure they are not penalised for failing to meet contractual obligations due to their participation in disaster response and recovery; and
- Support community sector organisations to adapt to climate change, be better prepared for emergencies and disasters and ensure continuity of care for vulnerable people.

*Costing: Up to \$140 million<sup>36</sup> (\$140 million in 2021-22)*

## 6.9 Improve people's resilience to the impacts of climate change

People on low incomes and experiencing disadvantage struggle the most to cope, adapt and recover from climate change impacts. People experiencing poverty or disadvantage before an extreme weather event are often left worse off after the event due to factors such as under-insurance, loss of employment, loss of housing and increased cost of living. Their needs must be incorporated into national and local climate change adaptation, resilience and emergency management strategies, including a focus on health, inclusion, communication, and recovery services.

**Recommendation 35** Support the development of an Australian social vulnerability map similar to ClimateJust in the United Kingdom or the Social Vulnerability Index in the United States, to support the development of local climate change adaptation and resilience plans.<sup>37</sup>

*Costing: \$500,000 (\$120,000 in 2021-22)*

---

<sup>34</sup> ACOSS has developed a Resilient Community Organisations Toolkit specifically designed for community sector organisations, but there is a need to deliver training and build a community of practice to community service organisations to implement the toolkit and develop disaster management. See ACOSS (2015): [Resilient community organisations website](#), accessed 16 December 2019.

<sup>35</sup> ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has assumed up to 50% of these organisations would be required to participate in local disaster management at an average cost of \$30,000 per organisation.

<sup>36</sup> ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has assumed up to 20% a year may be affected by extreme weather events and estimate an average of up to \$50,000 per organisation would be required to manage surge capacity, compensation for additional service provision, and enable community sector organisations to adapt and recover.

<sup>37</sup> ClimateJust (2017): [Resources website](#), accessed 16 December 2019; National Oceanic and Atmospheric Administration (2015): U.S. climate resilience toolkit: [Social vulnerability index website](#), accessed 16 December 2019

**Recommendation 36** Contribute revenue, in collaboration with states and territories, to support local councils to work with community services organisations, to strengthen individual (particularly individuals most vulnerable to extreme weather events) and community capacity to better adapt and become resilient to local climate change factors.<sup>38</sup>

*Costing: \$53 million<sup>39</sup> (\$55 million in 2021-22)*

**Recommendation 37** Resource community service organisations to build resilience of their clients:

1. Deliver the emergency RediPlan (personal emergency plan) to community sector clients;<sup>40</sup>
2. Implement plans to ensure vulnerable people are protected during emergencies.

*Costing: \$175 million<sup>41</sup> (\$180 million in 2021-22)*

---

<sup>38</sup> These would include, for example, identifying the needs of socially vulnerable people in the community during and after extreme weather events, putting plans in place to assist those who are dependent on other people, and enabling community members to support one another during and after extreme weather events.

<sup>39</sup> ACOSS has estimated costings based on there being 537 local councils which we suggest should receive at a minimum \$100,000 a year to implement climate resilience programs.

<sup>40</sup> Australian Red Cross (2019): [Create an emergency plan website](#), accessed 16 December 2019

<sup>41</sup> ACOSS has estimated costings utilising an estimation of 14,000 community service organisations under DSS service provision. ACOSS has allowed for up to 25% of community sector organisations to access the fund a year at an average cost to deliver RediPlan for clients and other relevant plans of up to \$50,000 per organisation.

## 7. Retirement incomes and services that are decent, sustainable and based on need

### Key messages

- In retirement income policy, the highest priority should be given to reducing the most severe poverty among older people, which is experienced by people renting privately and by those relying on allowance payments such as Newstart.
- Pensions should continue to be targeted towards people at risk of poverty and any easing of income or assets tests should as far as possible be cost-neutral.
- Compulsory super for employees should as far as practicable be universal, at a uniform contribution rate.
- Increases in the Super Guarantee above 10% should only proceed if the system works for people with low and modest incomes, that is:
  - Tax concessions for contributions are reformed so that they receive at least the same subsidy, per dollar contributed, as people with higher incomes (presently an individual on \$20,000 does not benefit at all from tax breaks on super guarantee contributions while someone on \$200,000 saves 32 cents per dollar contributed);
  - They are not required to save to reach a higher living standard postretirement than that which had, on average, through working life.
- Tax concessions for superannuation cost \$47 billion a year, about the same as the Age Pension, and they mainly benefit high income-earners.
- Only 16% of people over 64 years pays income tax, though many have the capacity to do so. In addition, once their super fund pays them a pension it pays no tax on its investment income.
  - This is not sustainable if future governments are to guarantee decent health and aged care services for an ageing population;
  - At the least, super fund earnings post-retirement should be taxed at the same 15% rate as they are beforehand, with the revenue earmarked to guarantee affordable access to quality aged care services.

o

## 7.1 Introduction

We welcome the government's review of retirement incomes, which is the first opportunity for many years to assess whether the system as a whole – pensions, super guarantee and tax concessions meets the needs of older people. In the first part of this chapter we summarise our views on the objectives of each component of the system and whether they are fair, sustainable and fit for purpose.<sup>42</sup>

The remainder of the chapter outlines our budget proposals to streamline the tax treatment of superannuation contributions, and reform the tax treatment of superannuation and other incomes post-retirement to help pay for aged care and health services.

## 7.2 A fair and balanced retirement incomes system rests on three pillars

Our retirement income system rests on three pillars: age pensions and other social security payments, compulsory superannuation, and tax concessions for superannuation. While each of these pillars contributes to adequate retirement incomes, the system has major weaknesses.

The purpose of the social security pillar should be to prevent poverty. Since it was increased substantially in 2009, the Age Pension is well-designed to achieve this goal, though the payment is still frugal and in general terms recipients only avoid poverty if they own their homes outright.

The evidence overwhelmingly shows that those older people most at risk of poverty are renting their homes, or relying on Newstart Allowance because they do not yet qualify for a pension.<sup>43</sup> As argued in [Chapter 4 \(Social security\)](#) and [Chapter 8 \(Improving access to affordable housing\)](#), lifting allowance payments and Rent Assistance should be top priorities for social security reform.

The purpose of compulsory retirement saving should be to help people smooth their incomes throughout life, and to top up modest pension payments. A sensible principles-based benchmark for compulsory retirement saving would ensure that a worker on a median wage and their partner can

---

<sup>42</sup> More detail is provided in our submission to the Retirement Incomes Review, to be made publicly available in 2020

<sup>43</sup> Saunders, P and Wong, M (2008): Deprivation and other indicators of the living standards of older Australians, Social Policy Research Centre, UNSW, Sydney.

come within reach of their average living standard during working life, after they retire (taking account of their pension entitlements).

Since compulsory super is a form of forced saving, the system should take account of greater financial pressures people (especially those with low incomes) face during working life, including higher housing costs, raising children, and the financial risks of unemployment and unstable employment, marital separation and illness.

The superannuation guarantee is legislated to increase from 9.5% currently to 12% by 2026. There is a risk that contributions at 12% of earnings would effectively force many people with low lifetime incomes to save when they are under the greatest financial pressure to fund a living standard in retirement that is higher than the one they had through working life. Before the Super Guarantee is lifted above 10%, the benefits of higher compulsory contributions for the median wage-earner and those with lower incomes should be demonstrated, and tax concessions for contributions should be reformed so that they provide at least the same public support (per dollar contributed) to low income earners as those with higher incomes.

Another way to better manage financial risks for people with low and modest incomes is to broaden the purpose of superannuation to take account of the other long-term savings needs of people with modest incomes, such as the cost of children, housing, and social risks such as unemployment, disability and marital separation. Social insurance systems in most other OECD countries make provision for at least some of these 'working life' financial risks.

A decent life in retirement depends on more than income alone. Older people need assurance that good-quality aged care and health services are available as needed, and that they don't face steep out-of-pocket costs. They need secure, affordable housing.

Governments have a responsibility to ensure that people don't lack these essentials of life as they grow older. The ageing of the population is projected to increase the cost of pensions and health and aged care under existing policy settings by \$16 billion a year within a decade's time.<sup>44</sup> Covering these costs, and improving these payments and services, requires a robust stream of future public revenue. Yet only 16% of older people pays income tax (even though many more could afford to contribute as the

---

<sup>44</sup> About half of this is the increased cost of pensions and the other half health and care services; Parliamentary Budget Office (2019): op. cit.



superannuation system matures and the wealth of many older people increases). This is not sustainable.

## Retirement Incomes Review: ACOSS views on the purpose of the system

The retirement income system should be based on the following pillars:

1. Social security payments:  
That are adequate to prevent poverty (taking account of the role of supplementary payments including Rent Assistance), and targeted to people at risk of poverty. The adequacy of all social security payments should be reviewed regularly by a statutory Social Security Commission which advises the Parliament (see [Chapter 4: Social security](#)).
2. Universal compulsory superannuation for income-replacement above the pension level:  
Benchmarked to the contribution level required for a 'median full-time wage earner' and their partner to attain a living standard in retirement that is within reach of - but not greater than- their family's average pre-retirement living standard, taking account of social security payments, housing costs and the costs of children.  
The appropriate superannuation guarantee rate to reach this benchmark would be reviewed from time to time, but would not be reduced.
3. Tax concessions to support compulsory and voluntary saving through superannuation to reach up to an 'average living standard' in retirement:  
That is, the living standard of an 'average full-time wage earner' and their partner during working life - and no greater than this since tax concessions are ultimately subsidised by other taxpayers.  
Taxation support for retirement saving should not support wealth accumulation for other purposes, such as bequests (apart from transfers to dependents).

The retirement income system should be supplemented by:

1. Universal, good quality, affordable health, aged care and community services:  
Along with people of working age, retired people should contribute through the income tax system to the costs of these essential services according to their ability to pay, so that reliance on user charges is



limited (see [Chapter 3: Improving access and affordability of essential community services](#)).

2. Housing that is secure and affordable for all:  
For people with low incomes who are renting, this should be underpinned by adequate Rent Assistance for private tenants and access to social housing (with rents tied to income) for those who cannot meet their housing needs in the private rental market (See [Chapter 8 – Strengthen preventive health care and public health services](#)).

## Retirement Incomes Review: ACOSS views on compulsory superannuation

Increases in the Superannuation Guarantee should only proceed if more compulsory saving demonstrably benefits people on low and modest incomes  
The superannuation guarantee should only increase above 10% where:

1. The tax treatment of superannuation contributions is reformed as proposed below: So that people on low wages receive at least the same tax support per dollar contributed as wage-earners on higher incomes; and
2. The increase is justified. That is, it is either:
  - a. Consistent with the above compulsory superannuation benchmark (to minimise the number of people who are required to save for a higher living standard after retirement than during working life); or
  - b. The purpose of superannuation is broadened so that fund members can draw down part of their superannuation balance, within modest annual and lifetime caps, to meet long-term saving needs other than retirement; and
3. The superannuation system must remain universal, with the same compulsory saving requirements and conditions applying as far as practicable to all employees (so that people on low incomes are not left behind in saving for a decent retirement).

## 7.3 Fair and simple taxation of superannuation contributions

The poor design of superannuation tax concessions is the greatest weakness of our retirement income system, and ACOSS has argued for major reform in this area for over 30 years.

The first problem is that the \$25 billion in annual tax breaks for contributions are complex and inequitable. The flat 15% tax on employer contributions, together with the deduction for self-employed people, give people with high incomes a greater tax saving, per dollar contributed, than those with more modest incomes. Flat taxes on labour incomes are rightly rejected by most people, yet they are tolerated in superannuation.

The system particularly disadvantages women, who have lower earnings and marginal tax rates than men. In 2017, 11% of female taxpayers earned less than \$30,000 compared with 9% of men. At those income levels, people generally receive no tax benefit from super contributions since the Low Income Superannuation Tax Offset merely offsets the 15% tax deducted from their employer contributions.

This disparity in our superannuation system between men and women reveals itself starkly in the statistics: one third of women retire without any superannuation, and single women aged 55<sup>45</sup> and over are the fastest-growing cohort of people who are homeless.<sup>46</sup>

For this reason alone, the present system of contributions taxes should be reformed before the Super Guarantee is increased. This can be done by replacing the present complex system of concessional tax rates, deductions, and spouse and 'catch-up' contributions with a simple two-tier rebate that is credited to super accounts at the end of each financial year (including those of fund members whose incomes are too low to pay income tax).

The rebate could, for example, be paid at a rate of 20 cents per dollar contributed from any source up to an annual cap of \$15,000 (very few people can afford to contribute more than this in a single year). This reform should be designed to be revenue neutral, by redirecting tax savings from

---

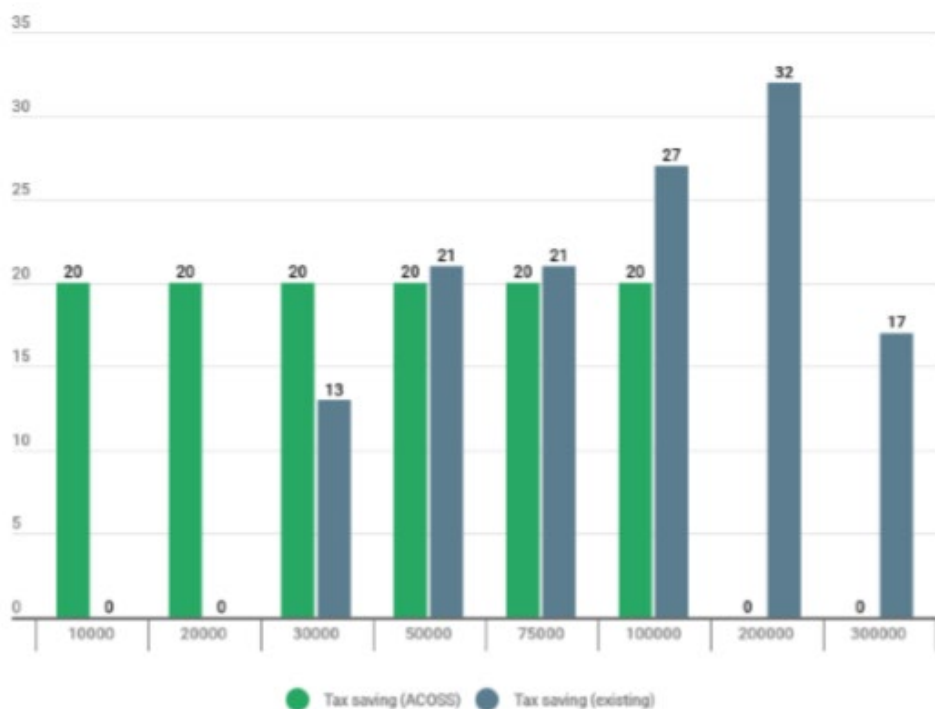
<sup>45</sup> Clare, R (2017): Superannuation account balances by age and gender Association of Superannuation Funds of Australia, Sydney, p.5

<sup>46</sup> AIHW (2019): [Older clients of specialist homelessness services Australian Institute of Health and Welfare, Canberra.](#)

high income-earners to low-income-earners. There is no justification for increasing the overall cost of tax concessions for retirement saving.

In addition, to make super worthwhile for people with very low incomes, a higher rebate could be paid for (say) the first \$500 a year contributed to super accounts. This would not add much to retirement savings of high-income-earners (whose tax concessions would be reduced by the overall reform), but it would make a major difference for many people, especially women, who receive low wages for much of their lives. Alternately, the superannuation accounts of people with low incomes could be 'topped up' by modest government co-contributions where accumulated savings consistently fall below minimum thresholds.

The impact of the proposed reform on the tax savings available to people at different income levels from the next dollar contributed above the present Super Guarantee level (9.5% of wages) is illustrated in the figure below. If the ACOSS rebate were implemented, the distribution of average (or overall) tax rates on Super Guarantee contributions would be more progressive than indicated here.



**Figure 3: Tax saved, in cents per dollar contributed about the Super Guarantee, at different income levels (existing system and ACOSS rebate)**

## Recommendation 38 Fair and simple tax concessions for superannuation contributions

1. All tax concessions for superannuation contributions (including the 15% employer contributions tax rate, deductions for contributions, and rebates for contributions by low-income earners and for spouses) should be replaced in a revenue-neutral way by an annual two-tier refundable rebate paid into the fund, that is capped at a contribution level sufficient to support (along with the Age Pension) an acceptable retirement income for a typical worker.
2. The rebate for concessional contributions would be structured as follows:
  - a. 100 cents per dollar contributed from any source up to \$500 per year (not income-tested, indexed to movements in average full-time earnings), to support retirement saving by low paid part-time workers and replace the Low Income Super Tax Offset;
  - b. Plus 20 cents per additional dollar contributed from any source up to \$15,000 (indexed to movements in average full-time earnings), with no higher cap for 'catch-up' contributions;
  - c. For this purpose, contributions would be calculated as net contributions – that is, all contributions made to a person's superannuation accounts in a given year minus any benefits paid – in order to curb tax avoidance through 're-contribution' strategies.
3. The annual non-concessional contributions cap should be reduced to three times the new concessional cap (\$45,000), and the ability to contribute up to three years' contributions within the cap in a single year should be removed
4. The exception to the general prohibition on direct borrowing by super funds for limited recourse borrowing arrangements by self-managed funds should be removed

*Costing: Revenue neutral*

## 7.4 Fair and sustainable taxation of superannuation post-retirement

It will not be possible for future governments to properly fund aged care and health services for an ageing population as long as only 16% of older people pays income tax. We need to choose between over-generous tax breaks for retirement, decent services, or a steep rise in out-of-pocket costs for health and aged care. Older people are rightly concerned about the deficiencies in aged care revealed in the current Royal Commission, and increases in out-of-pocket costs for those services, including large up-front deposits for residential care. These concerns have led many people to hold on to their retirement savings, reducing their current income and enjoyment of retirement while they are still healthy, in case they need the money for health and aged care services later in life. The outcomes are lower draw-downs of super, more anxiety for older people, and ultimately larger bequests – the opposite of what a well-balanced retirement incomes policy should achieve.


Despite welcome reforms in 2016, the tax treatment of superannuation after retirement remains extraordinarily generous, especially for people with substantial wealth. In addition to the exemption from income tax of superannuation benefits, the investment income of a super fund is no longer taxed once it pays a pension to a fund member. In contrast, during the so-called 'accumulation phase' interest, dividends and capital gains off super funds are taxed at 15% (10% in the case of capital gains).

Re-contribution strategies (where a fund member who receives a superannuation pension makes fresh contributions to super in the same year, thereby 'churning' their income through super) have blurred the artificial distinction between 'accumulation' and 'pension' phases of superannuation. As the Henry Report recommended in 2009, this distinction should be removed and the same tax rate should apply to super fund earnings before and after retirement.<sup>47</sup>

As well as undermining public revenue as the population ages and the superannuation system matures, the non-taxation of fund earnings in the 'pension phase' opens up tax avoidance opportunities that have little to do with saving for retirement. People can avoid paying tax on capital gains

---

<sup>47</sup> Henry et al. (2009): Australia's future tax system review final report, The Treasury, Canberra. Available: <https://treasury.gov.au/review/the-australias-future-tax-system-review/final-report>; Tax avoidance through re-contribution strategies was addressed in part by the government's decision in 2016 to apply the 15% tax rate to the investment income of 'Transition to Retirement' accounts.



accrued through working life by transferring or retaining assets in a self-managed superannuation fund until they reach the age of 60 and the fund pays them a pension, at which point the fund's earnings, including capital gains, are tax free. Small business owners can transfer assets into their super fund tax free, taking advantage of the CGT rollover for small business assets used for retirement.

In addition, the 17% tax on superannuation assets transferred to a deceased estate can be avoided by shuffling superannuation savings from 'concessional' to 'non-concessional' accounts. This facilitates the use of superannuation as an estate management tool as well as a tax avoidance tool.

The tax treatment of superannuation post-retirement should be reformed to help finance good quality aged care and health services, and the link between these two pillars of a decent retirement should be made explicit. In return for higher income tax revenues from those retired people who can afford to pay, the government should guarantee that older people will receive decent, affordable aged care services when needed, with a minimum of out-of-pocket costs.

## Recommendation 39 Tax superannuation fund earnings after retirement to help pay for aged care and health

1. The 15% tax on fund earnings in the 'accumulation' phase should progressively be extended to the 'pension' phase over a three-year period from July 2021 (with a 5% increase each year);
2. This tax should be offset by a 15% rebate (minus any imputation credits) for taxpayers over the preservation age whose income (including Age Pension, earnings, superannuation and other investment income) falls below the taxpayer's tax-free threshold. The rebate would be calculated each year by the ATO and deposited in a superannuation fund chosen by the taxpayer;
3. Opportunities for taxpayers to avoid or reduce tax on capital gains accrued during working life by holding assets in a self-managed super fund;
4. Transfers from superannuation accounts to the estates of deceased fund members (apart from spouses and dependent children) should be taxed at the statutory rate of 17%;
5. Revenue collected from these measures (which would rise substantially in later years) should be earmarked for public expenditure on aged care, health, and disability services.

*Revenue: \$0 (\$2,500 million in 2021-22)*

## 7.5 Taxation of other post-retirement income

We propose two further reforms to strengthen the personal income tax base in order to finance essential health, aged care and disability services.

First, age-based tax concessions should be replaced by rebates based on low income.

The Seniors and Pensioners Tax Offset (SAPTO) is a tax rebate for people of pension age. In its first iteration, its purpose was to exempt individuals receiving the maximum rate of pension (with private income below the 'free area') from income tax. Over time, it was extended to retired people who were too wealthy to receive a pension and increased to the extent that single people over the pension age (64 years) with income up to \$32,000 and couples with income up to \$58,000 (in addition to tax-free superannuation payments) pay no income tax. These age-based, tax-free thresholds are 50% higher than those for people of working age – an inequity that cannot be justified. We propose to return the SAPTO to its



original purpose, to exempt pension recipients of all ages with incomes below the income test free area from tax.

Similarly, the Medicare Levy exemption threshold for seniors should be reduced to the same level that applies to people of working age. The Medicare Levy should also be strengthened by broadening the definition of income used to calculate it.

### **Recommendation 40** Remove age-based tax concessions to help finance health and aged care services

1. The Seniors and Pensioners Tax Offset should be restricted to pension recipients and redesigned so that it exempts the pension plus private income within the pension 'free area' from income tax;
2. The Medicare Levy exemption threshold for people over 64 years should also be equal to the relevant pension plus the 'free area';
3. Revenue collected from these measures should be earmarked for public expenditure on aged care, health and disability services.

*Revenue: \$700 million (\$700 million in 2021-22)*

## 7.6 Strengthen the Medicare Levy to fund health care for an ageing population

Currently, the income base for the Medicare Levy is taxable income, which opens up opportunities for taxpayers to avoid paying it by taking advantage of negative gearing arrangements, salary sacrifice, or the use of private trusts. On the other hand, the income definition for the high-income Medicare Levy Surcharge ('MLS income') restricts these tax avoidance opportunities. This broader definition should extend to the Medicare Levy itself.

### **Recommendation 41** Strengthen the Medicare Levy

1. From 1 July 2020, the income definition for the Medicare Levy should be broadened from 'taxable income' to 'Medicare Levy Surcharge income' to prevent people from avoiding the Levy by using tax shelters such as private trusts, negative gearing or salary sacrifice arrangements;
2. Revenue raised from this change should be earmarked for public expenditure on essential health and disability services.

*Revenue: \$1,200 million (\$1,300 million in 2021-22)*



## 8. Strengthen preventive health care and public health services and the revenue base needed to pay for them

### Key Messages

- On present policy settings, the cost of health, disability services and aged care will rise by \$21 billion a year by 2024.
- In order to address this growth we need to see a shift in focus and investment toward preventive health, by lifting expenditure on preventive health to 5% of the Commonwealth health budget, so that we improve people's health and wellbeing and reduce the burden on the health system.
- We also need to reduce wasteful spending in health like the Private Health Insurance Rebate and the Extended Medicare Safety Net, to reduce costs and health price inflation.
- A key priority should also be to address one of the key gaps in our health system – the lack of a universal dental health scheme.

### 8.1 Introduction

Although Australia's health system is based on a model of universal healthcare, people on low incomes or who live in disadvantaged or isolated communities experience particular problems accessing services that are readily available to other people in Australia. These include the capacity to access and pay for general medical and oral health care, as well as specialist care. In addition, people on low incomes often find it difficult to balance the costs of prescriptions, medical appointments and health maintenance, with other household expenses.

The Parliamentary Budget Office estimates that, on present policy settings, the cost of health, disability services and aged care will rise by \$21 billion a year by 2024.<sup>48</sup> This is before accounting for unmet needs in areas such as dental health, mental health, and aged care.

---

<sup>48</sup> Parliamentary Budget Office (2018): [2018-19 Medium-term fiscal projections, Parliamentary Budget Office, Canberra.](#)

Therefore, budget policies in health should focus not on cutting expenditure, but on a shift in priorities towards primary and preventive care, and a far better distribution of health expenditure so that it achieves value for money in an effective, accessible and affordable health care system.

The first step in health reform should be to reduce the worst gaps in health services. We propose a transition to a universal public dental scheme, and in the revenue section of this statement we advocate policies to strengthen the revenue base for health, aged care and disability services.

To ensure our health care system is sustainable, poorly targeted and ineffective subsidies that inflate the cost of care, including the Private Health Insurance Rebate and Extended Medicare Safety Net, should be abolished and the savings redirected to more effective health care programs.

## 8.2 Invest in health promotion and prevention programs

Too much of our public health spend is directed towards tertiary or hospital services, with inadequate investment in preventive health initiatives. We fail to prevent a whole range of conditions (namely chronic disease, but also preventable communicable diseases) that significantly inhibit people's health and wellbeing while also placing an unsustainable burden on our health system.

Stronger investment in preventive health care and supporting people to adopt healthier lifestyles would save significant future health care costs.<sup>49</sup> For example, the Victorian Government estimates that savings of over \$1 billion a year could be made by better managing chronic illness to avoid hospital visits.

**Recommendation 42** Increase investment in health promotion and prevention (including nutrition, obesity, tobacco and alcohol use, mental health, diabetes and cancer prevention, and communicable diseases prevention) to 5% of total

Commonwealth health spending

*Costing: \$2,600 million (\$2,657 million in 2021-22)*

---

<sup>49</sup> For a strong rationale for preventive services, see for example Preventative Health Task Force (2010): Taking preventative action – a response to Australia: [The healthiest country by 2020, Preventative Health Task Force, Canberra.](#)

## 8.3 Transition to a universal dental health care scheme

One of the most significant gaps in our public health system is the provision of affordable, accessible dental care for all. While seeing a GP usually results in Medicare bearing all or most of the cost, seeing a dentist often results in significant out-of-pocket costs, even for those with private health insurance. This makes dental care unaffordable for many people on low incomes, and many go without the treatment they need. This creates costs in our broader health system, but also impacts on people's ability to live their lives, including to eat well, work and be engaged in their communities. Australia should transition dental care to a universal scheme, funded by the Federal Government.

### **Recommendation 43** Create a universal, federally funded dental care scheme

As a first step, in the transition to a full scheme, public dental services investment should increase by \$1.1 billion.

*Costing: \$1,100 million (\$1,124 million in 2021-22)*

## 8.4 Abolish the Private Health Insurance Rebate

Despite being a significant component of health expenditure, the Private Health Insurance Rebate (PHIR) has failed in its promise to take pressure off public hospitals by increasing use of private health insurance. Total savings of \$6.3 billion from abolishing the rebate would be offset by a modest increase in demand for public hospital services.<sup>50</sup>

### **Recommendation 44** Abolish the Private Health Insurance Rebate which costs \$6.3 billion per annum, and reinvest \$2.3 billion in public hospitals

*Saving: \$4,000 million (\$4,100 million in 2021-22)*

---

<sup>50</sup> Department of Health (2019): Budget 2019-20: Portfolio budget statements 2019-20: [Budget related paper No. 1.9: Health portfolio, Department of Health, Canberra](#). Grattan Institute (2013): Balancing budgets: [Tough choices we need, Grattan Institute, Melbourne](#).

## 8.5 Abolish the Extended Medicare Safety Net

Poorly designed consumer subsidies such as the Extended Medicare Safety Net (EMSN) exacerbate inflation in health costs. An independent review of that program found that less than 4 per cent of EMSN benefits go to the most socioeconomically disadvantaged 20 per cent of the population.<sup>51</sup> This is because they struggle to afford the gap fees that enable them to reach the EMSN thresholds. While EMSN benefit caps were set on all consultations as part of the 2012-13 budget, ACOSS is concerned by the lack of public data to assess whether this has reduced the costs (or reduced growth in costs) of specialist and allied health services and led to a more equitable distribution of EMSN benefits across the income distribution. More fundamental reform is needed, including greater transparency for consumers on the outpatient fees charged by specialists and out-of-pocket costs to patients.

**Recommendation 45** Abolish the Extended Medicare Safety Net, which costs \$500 million a year and is driving up medical costs  
*Saving: \$500 million (\$511 million in 2021-22)*

## 8.6 Reducing harms from overuse of alcohol and sugary drinks

Excessive sugar consumption is a major reason that almost two-thirds of Australian residents are overweight or obese; one of the highest rates in the OECD. Sharp increases in the incidence of overweight and obesity (especially among children) over the last few decades are associated with growth in chronic illness such as diabetes.<sup>52</sup> It is also very harmful to teeth, especially for children.

In Chapter 10: A fairer tax system that supports economic development, we recommend that a 'sugar tax' be introduced on certain sweetened drinks to

---

<sup>51</sup>The EMSN provides an additional rebate for people who incur out-of-pocket costs for Medicare eligible out-of-hospital services. Once the relevant annual threshold of out-of-pocket costs has been met, Medicare will pay for 80% of any future out-of-pocket costs for out-of-hospital Medicare services for the remainder of the calendar year. From 1 January 2019 the annual EMSN thresholds are: \$680.70 for Commonwealth concession cardholders, and \$2,133.00 for all other singles and families. See Department of Health (2019): [Medicare safety net arrangements - 1 January 2019, Department of Health, Canberra](#). Centre for Health Economics Research and Evaluation (2011): Extended Medicare Safety Net: [Review of capping arrangements report 2011, CHERE, University of Technology, Sydney, Sydney](#).

<sup>52</sup> Combined rates of overweight and obesity were 63% in 2014, up from 56% in 1995 and 61% in 2007-8. See Australian Institute of Health and Welfare (2018): Healthy communities: [Overweight and obesity rates across Australia, 2014-15, AIHW, Canberra](#).

address social, health and economic costs of overconsumption of sugar. This should be part of a wider strategy including regulatory reform (to restrict advertising targeting children, improve the transparency of labelling of food and beverages, and restrict the financing of sporting and similar activities by producers), and health promotion campaigns.<sup>53</sup>

Overall alcohol consumption has fallen in Australia. However, there has been persistent growth in consumption of wine, and growing concern about the impact of excessive consumption of cheap wines on drinkers, their families and communities, especially its contribution to family violence.

In the same chapter, we recommend that alcohol taxes be reformed to reduce the incidence of binge drinking and associated social harms.

While such taxes on consumption are generally regressive, the above reforms would improve the health and wellbeing of low-income families and children.

---

<sup>53</sup> Obesity Policy Coalition (2018): [A comprehensive policy program to reduce consumption of sugar-sweetened beverages in Australia, Obesity Policy Coalition, Melbourne](#). Obesity Policy Coalition (2018): [The case for a health levy on sugar-sweetened beverages, Obesity Policy Coalition, Melbourne](#).

## 9. Improving access to affordable housing

### Key messages

- With a sluggish economy, the recent decline in housing construction is bad news for jobs, household incomes, and for people with low incomes searching for a home they can afford to live in. Construction of new apartments in major cities is expected to fall by half in 2020.
- For every dollar invested, direct public investment in social housing is estimated to boost GDP by \$1.30. Importantly, housing construction can be undertaken more quickly than major road or rail projects.
- A 20,000 dwelling, \$7 billion social housing package should be rolled out over the next 3 years to reduce homelessness and kick-start housing constructions and growth in jobs and incomes.
- Beyond an immediate social housing boost, the government should prioritise developing a national affordable housing strategy in dialogue with other governments and stakeholders, lift Rent Assistance, create a new incentive to encourage private investment in affordable rental housing and boost funds for remote housing and the Indigenous Community Housing sector nationally.

### 9.1 Introduction

The Government should deliver an immediate social housing investment to kick-start the economy and relieve homelessness, and, over the medium term, prioritise developing a national affordable housing strategy in dialogue with other governments and stakeholders, which boosts funding for capital growth under the new affordable housing agreement; reforms housing taxation (capital gains and negative gearing, as noted above); incentivises private sector investment in affordable rental housing; and improves financial support to low-income renters.

The government should also develop a new remote housing funding agreement for Aboriginal and Torres Strait Islander people with costs shared equally between state/territory parties. This should be complemented by a national urban, rural, regional and remote Aboriginal and Torres Strait Islander strategy with funds in the new national housing agreement earmarked to support the growth of Indigenous Community Housing Organisations.

## 9.2 Boost investment in new social housing, which meets accessibility and energy efficiency standards

The rise in homelessness is unacceptable in a nation as wealthy as Australia. Research indicates there is a [national shortage of just over 400,000 homes](#) that are affordable for people who are homeless or living on the lowest incomes (the lowest 20% by household income). Financially vulnerable people in social housing are less than half as likely to become homeless as a similar group renting privately. Over one-third of new tenants in social housing were previously homeless.

Direct public investment in social housing is also a cost effective way to boost growth in jobs and incomes. For every dollar invested, it is estimated to boost GDP by \$1.30. Importantly, housing construction can be undertaken more quickly than major road or rail projects.

### **Recommendation 46** Boost investment in new social housing, which meets accessibility and energy efficiency standards

Additional capital funding should be provided to state and territory governments to enable growth in the supply of social housing for people on low incomes, through a \$7 billion, 20,000 dwelling package rolled out over the next 3 years, with most construction occurring in the first two years.

*Costing: \$1,000 million (\$4,000 million in 2021-22)<sup>54</sup>*

---

<sup>54</sup> For more detail, see ACOSS (2019: How to reduce homelessness and boost incomes and jobs: [Social housing as infrastructure, ACOSS, Sydney.](#)



### 9.3 Reform Rent Assistance to relieve rental stress for renters in the private market

Rent Assistance provides important assistance to low-income residents of private housing but has failed to keep pace with steep increases in rents.

#### **Recommendation 47** Reform Rent Assistance to relieve rental stress for renters in the private market

The rate and indexation of Rent Assistance 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 should be increased by 30% (approximately \$20 per week) for low-income households currently receiving the maximum rate.

*Costing: \$1,200 million (\$1,226 million in 2021-22) (See [Chapter 4: Social security](#))*

### 9.4 Introduce a new rental investment scheme to stimulate investment in affordable rental housing

A new rental investment incentive scheme is needed to replace the discontinued National Rental Affordability Scheme, and to complement the National Housing Finance Investment Corporation, Bond Aggregator and Housing Infrastructure Facility by bridging the finance gap for potential investors in housing for rent below market. See [Chapter 10: A fairer tax system that supports economic development](#).

### 9.5 Develop a new national Aboriginal and Torres Strait Islander housing strategy for urban, rural, regional and remote areas

Since 2009, there has been no dedicated Commonwealth funding for Aboriginal and Torres Strait Islander housing supply outside of remote areas and services have increasingly been mainstreamed, in a context of little or no overall growth. This is despite the benefits of culturally appropriate housing for Aboriginal people around the country and the large Aboriginal populations in urban centres.

## **Recommendation 48** Develop a new national Aboriginal and Torres Strait Islander housing strategy for urban, rural, regional and remote areas

A new national Aboriginal and Torres Strait Islander housing strategy should be developed with a 10% boost to funding under the National Housing and Homelessness Agreement earmarked to build capacity for Indigenous Community Housing Organisations (ICHOs). This should support the viability of ICHOs as an alternative to mainstream providers and support their capacity to take advantage of new financing options such as the Bond Aggregator.

*Costing: \$175 million (\$190 million in 2021-22)*

## **9.6 Develop a new inter-governmental remote housing agreement**

The National Partnership on Remote Indigenous Housing expired in June 2018, and has not been replaced leaving an urgent funding gap affecting Australia's most disadvantaged communities.

## **Recommendation 49** Develop a new inter-governmental remote housing agreement

A new remote housing funding agreement should be negotiated between the Commonwealth and state and territory governments, with funding shared equally between the parties.

*Costing: \$450 million (\$475 million in 2021-22)<sup>55</sup>*

---

<sup>55</sup> Total funding would be \$900 per annum in 2020-21 with federal/state and territory contributions

## 10. A fairer tax system that supports economic development

### Key messages

- With Commonwealth spending held at its lowest rate of increase for 50 years, and mounting pressures on essential services, from Newstart to aged care; this is not the time to cut income tax by \$16 billion a year, as the Government proposes to do from 2023; or worse, to bring forward those tax cuts.
- The experience of the 2019 tax cuts, which were saved rather than spent, strongly suggests that another round of cuts (especially those going mainly to individuals earning \$90,000 or more) would do little to boost growth in jobs and incomes. They will instead lead to more cuts in essential services and payments.
- The government should instead strengthen the personal income tax base so that necessary increases in public expenditure can be sustained to respond to population ageing and unmet needs in the community.
- Any tax cuts in the forward estimates period should be substantially funded by closing income tax shelters, and concessions that are not fit for purpose.
- Distortions in the tax treatment of investment income should be reduced to curb speculative investment in assets such as housing that yield capital gains:
  - The Capital Gains Tax discount should be halved;
  - Losses from investments yielding capital gains should no longer be offset against other income (negative gearing), with budget savings re-directed to an investment incentive for affordable rental housing.
- Tax avoidance opportunities through private companies and trusts should be closed and a public register of beneficial ownership of express trusts established.
- Further action should be taken to curb tax avoidance by multi-national companies, including the manipulation of interest rates on loans between related entities in Australia and other countries.

- To improve public health and raise revenue for preventive health programs:
  - A tax should be introduced on sweetened drinks;
  - Alcoholic beverages should be taxed at a uniform rate based on the volume of alcohol they contain.

## 10.1 Introduction

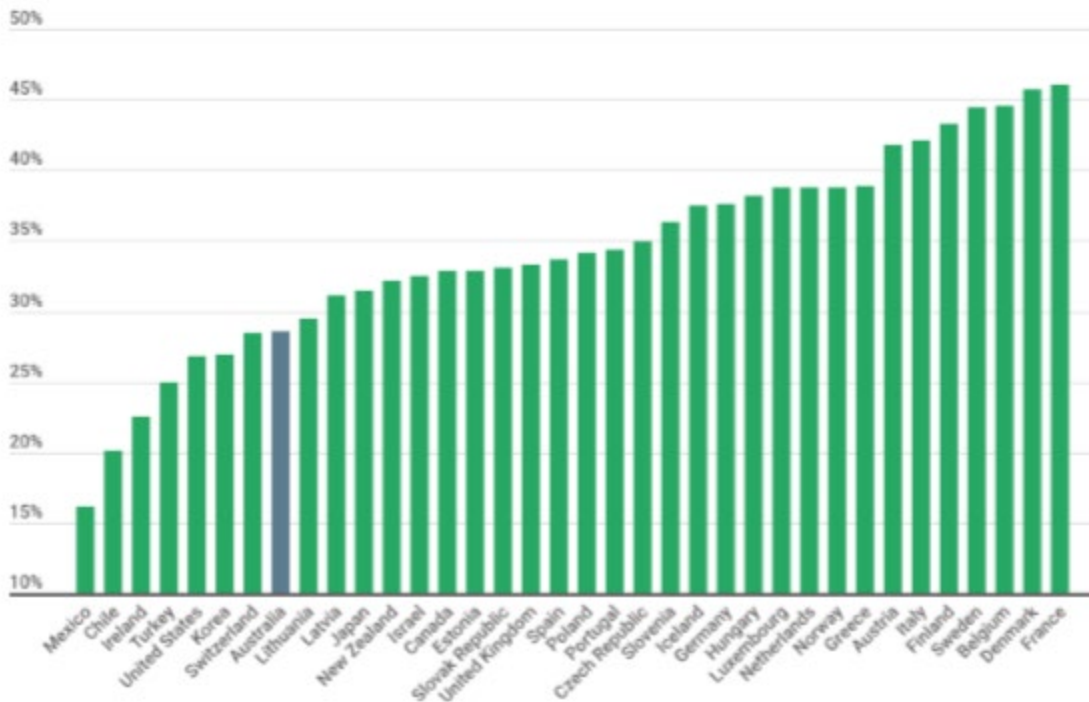
This Chapter deals with our recommendations to raise public revenue more fairly and sustainably, by closing tax shelters and concessions not fit for purpose, and proposals to reform taxes on alcohol and sugary drinks to improve public health.

## 10.2 Ensure that personal income tax revenues are adequate to meet the community need

Australia is the eighth-lowest taxing country among 39 OECD nations (at 39.4% of GDP), ahead of only Mexico, Chile, Ireland, Turkey, the United States, Switzerland and Korea.<sup>56</sup> Notwithstanding our tightly targeted social security system, this means that our governments struggle to provide first-world services and decent income support for those who need it.

---

<sup>56</sup> OECD (2019): [Revenue statistics 2019, OECD Publishing, Paris](#). Public revenue from all levels of government in 2017.



**Figure 4: Public revenue as a % of GDP (2017)**

While the government predicts a small budget surplus in 2019-20, pressures on the Budget will build as the population ages. The Parliamentary Budget Office estimates that ageing alone will raise Commonwealth expenditures on existing programs by \$16 billion a year (in 2018 dollars) in a decade’s time.<sup>57</sup> This is before necessary action is taken to close yawning gaps in our social security system and essential services, including poverty and unemployment among people relying on the lowest social security payments, dental and mental health services, affordable housing and aged care (see [Chapter 4: Social security](#), [Chapter 8: Strengthen preventive health care and public health services](#) and [Chapter 9: Improving access to affordable housing](#)).

In the face of these budget pressures, tax cuts costing \$16 billion in 2023 and another \$18 billion in 2024 have been legislated. The 2019 Budget Papers make it clear that if the budget is kept in surplus, those tax cuts can only be paid if real annual growth in expenditures is held at 50-year lows over the forward estimates period. For example, average real annual growth in health spending is projected to be just 0.7% a year.<sup>58</sup> This is well below

<sup>57</sup> Parliamentary Budget Office (2019): [2019-20 Medium-term fiscal projections, Parliamentary Budget Office, Canberra.](#)

<sup>58</sup> ACOSS (2019b): op. cit.

average expenditure growth in recent years (including since the Coalition government was elected in 2013). Even if this level of spending restraint was possible, the economic parameters underpinning these budget projections are not realistic. Projections for growth in wages, employment and GDP have already been revised downwards in the December 2019 MYEFO statement.

The scheduled tax cuts should not proceed in their present form, given their high cost and bias towards taxpayers with high incomes. Given the medium-term fiscal challenges described above, any tax cuts during the forward estimates period should be substantially paid for by reducing tax concessions and closing off tax shelters.

In the short term, the fiscal stimulus that is needed to strengthen growth in jobs, incomes and household spending should be provided on the expenditure side of the budget, as outlined in the Summary. Personal income tax cuts and investment incentives are much less effective per dollar 'spent' than the direct expenditure measures we propose, as evidenced by the lack of any 'bounce' in household spending from the 2019 tax cuts.<sup>59</sup> Bringing forward the 2022 tax cuts is likely to be even less effective, given they mainly go to high-income-earners (who are more likely to save any increase in their disposable incomes).

The fairest and least economically disruptive way to lift public revenues to pay for improvements in payments and services is to close gaps in the income tax base so that different forms of income are taxed more consistently. Our proposals to strengthen the personal and business income tax base are outlined below.

### **Recommendation 50** Do not proceed with scheduled income tax cuts

1. The personal income tax cuts legislated to be introduced from July 2022 should be withdrawn, and the savings devoted to essential services.

*Revenue: (\$16,400 million in 2023-24)*

2. Any new tax cuts in the forward estimates period should be substantially funded by closing income tax shelters and loopholes (such as excessive work-related deductions and tax breaks for company cars).

---

<sup>59</sup> For discussion of international evidence on cost-effective fiscal stimulus, see ACOSS (2019a): op. cit.

### 10.3 Tax investment income fairly and consistently

One of the most economically harmful investment distortions in the tax system is the 50% discount on tax rates for capital gains (CGT) received by individuals and trusts, together with the delay in taxing capital gains until assets are sold. The privileging of speculative investments in assets (such as housing) that yield capital gains over other more productive investments (such as active businesses) inflates asset prices and detracts from economic development. It contributes to boom and bust cycles in the economy and makes it more difficult for the Reserve Bank to adjust interest rates to boost growth when needed (as it is now).

The 50% CGT discount overwhelmingly benefits the top 10% of taxpayers, who receive two-thirds of all capital gains.<sup>60</sup> We propose that this concession be halved, so that three-quarters of capital gains are taxed. Rather than 'grandfathering' this change (which would lead some investors to 'lock in' their assets so they could continue to take advantage of the lower tax rate), we propose that the transition to the new rules be managed by progressively lifting the tax rate on capital gains from 50% of the marginal tax rate to 75% over a three-year period. Existing investors should have the funds to pay the higher rate of CGT, as this tax is only levied once an asset is disposed.

In addition, avoidance of CGT would be curbed by our recommendation to tighten the tax treatment of superannuation fund earnings post-retirement (see [Chapter 7: Retirement incomes and services that are decent, sustainable and based on need](#)).

The sale of certain small business assets (such as land and buildings) attracts further CGT concessions: the 50% tax discount is doubled and there are exemptions for capital gains held for over 15 years and those used for 'retirement purposes.' Together, these concessions mean that many business owners with substantial personal wealth can often avoid paying Capital Gains Tax (CGT) altogether, or at a very low rate. This is inequitable, and it discourages business owners from saving for retirement in other, less risky ways than relying on growth in the value of their own business assets.

Ideally, the delay in taxing capital gains would be eliminated by taxing them annually as they accrue. This is impractical as it would require annual valuations, and many long-term investors would not have the cashflow to pay CGT each year. Instead, the government should ensure that the tax

---

<sup>60</sup> Daley, J and Wood, D (2016): [Hot property: Negative gearing and capital gains tax, Grattan Institute, Melbourne.](#)



treatment of investment expenses (including interest payments on borrowings to purchase an asset) is consistent with the (delayed) tax treatment of capital gains. Investors should not be able to claim deductions on those expenses until the investment yields a positive return (often through sale of the asset many years later). That is, 'negative gearing', where investment expenses are deducted against other income such as wages, should be restricted.<sup>61</sup>

### **Recommendation 51** Reduce the general Capital Gains Tax discount for individuals and trusts

The exemption of 50% of personal capital gains from Capital Gains Tax should be reduced from 50% to 25%, phased in over five years (reduced by 5% per year) commencing 1 July 2020.

*Revenue: \$600 million (\$1,200 million in 2021-22)*

### **Recommendation 52** Remove inequitable small business Capital Gains Tax concessions

The following tax concessions for capital gains from the disposal of small business assets should be phased out over five years from 1 July 2021:

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

*Revenue: \$0 (\$300 million in 2021-22)*

We propose that deductions for expenses relating to passive investment in housing, shares, collectables and similar assets purchased after 1 January 2020 be deferred until they can be offset against income received from those classes of assets, including rents, and capital gains realised on their subsequent sale. Investors could still claim deductions, but they would be better matched with investment income. Assets acquired before that date would be 'grandfathered' so that deductions can still be claimed under the present rules. Unlike the above change to CGT, grandfathering is appropriate in this case because otherwise some existing investors would lack the cashflow to pay the additional tax owing on their wages and other non-investment income.

---

<sup>61</sup> A more detailed explanation of this reform, including our responses to claims that it would mainly affect people on low or modest incomes, is in ACOSS (2016): [Fuel on the fire: Negative gearing, capital gains tax & housing affordability, ACOSS, Sydney.](#)

The revenue saved from this measure would be devoted to the affordable rental housing investment incentive proposed in Chapter 9: Improving access to affordable housing, so that it boosts affordable housing supply rather than merely lifting house prices.

### **Recommendation 53** Restrict deductions for personal investment expenses (negative gearing)

1. Income tax deductions for expenses (such as interest payments on debt) relating to passive investments in assets yielding capital gains (such as housing, shares and collectables) should be limited to income received from those asset classes, including capital gains realised on subsequent sale. This should apply to all new investments of this type entered into after 1 January 2021.

*Revenue: \$0 million (\$600 million in 2021-22)*

2. The revenue saved from this measure should be used to introduce an affordable rental housing investment incentive which rebates a proportion of the construction costs of new 'affordable rental' dwellings annually over a ten year period, during which rents are held at least 20% below median market levels (see [Chapter 9: Improving access to affordable housing](#)).

*Costing: \$0 million (\$600 million in 2021-22)*

## 10.4 Curb tax avoidance through business and investment structures

### **Private trusts**

Private (closely held) trusts, especially discretionary trusts, are used to avoid income tax by splitting income with a family member, delaying or avoiding payment of CGT, and by passing on the benefits of investment tax breaks from the trust to its beneficiaries (unlike the tax treatment of companies).<sup>62</sup> Although the policy intention is that any income that is not taxed in the hands of beneficiaries is instead taxed in the hands of the trust, this is not consistently applied.

Private trusts and companies are also used to (illegally) evade tax and launder money by shifting funds through complex chains of entities or to 'tax havens' such as Panama, Bermuda, or Switzerland.

---

<sup>62</sup> A discretionary trust is one in which the trustee has discretion to distribute trust income to beneficiaries each year as they see fit in accordance with the trust deed. This flexibility means that they are the most commonly used form of trust for tax avoidance purposes.

One way to close off these tax avoidance opportunities is to tax private trusts as companies as recommended in 2000 by the Review of Business Taxation (Ralph Review).<sup>63</sup> This would also improve consistency in the tax treatment of trusts and companies, especially the treatment of tax-preferred income (tax concessions), which would no longer 'pass through' to the beneficiaries of private trusts. On the other hand, it would enable high-income-earners to exploit the gap between the company tax rate and higher personal tax rates by retaining income in the trust, so that weakness in the tax treatment of private companies should also be overcome as proposed below.

The new rules applying to private trusts would apply to private express trusts (both fixed and discretionary trusts), with exemptions similar to those recommended in the Ralph Review, including complying superannuation funds and disability trusts.

An alternative way to curb tax avoidance through discretionary trusts is to apply CGT to untaxed or concessionally taxed income (for example, where taxable income is reduced by building works deductions) of private discretionary trusts when it is distributed to beneficiaries. Currently, these distributions do not attract CGT, including where capital gains are realised through 'asset revaluations' within the trust. This would bring the tax treatment of discretionary trusts into alignment with that of fixed trusts, and curb avoidance of CGT.

A related policy challenge is the widespread use of private companies and trusts to (unlawfully) evade tax and launder money through secrecy jurisdictions or 'tax havens', as revealed by revelations from 'Operation Wickenby' (Switzerland), 'Panama Papers' (Panama) and the 'Paradise Papers' (Bermuda).

Australia was a prominent supporter of the G20 initiative to curb these practices by improving the transparency of beneficial ownership of companies and trusts. Australian governments have also participated in the OECD's Base Erosion and Profit Shifting (BEPS) initiative to stem multinational tax avoidance.<sup>64</sup> Despite this, government action to establish

---

<sup>63</sup> Review of Business Taxation (1999): A tax system redesigned: More certain, equitable and durable, The Treasury, Canberra.

<sup>64</sup> Group of 20 (2014): [High-level principles on beneficial ownership transparency, G20, Brisbane](#). OECD (2017): Global forum on transparency and exchange of information for tax purposes: Australia 2017 (second round): [Peer review report on the exchange of information on request, Global Forum on Transparency and Exchange of Information for Tax Purposes, OECD Publishing, Paris](#).

registers of the beneficial ownership and control of private companies and trusts has been tardy.

The ATO publishes tax information for public companies with income exceeding \$100 million and private companies with turnover exceeding \$200 million. There is no sound reason for the higher threshold for private companies, and the absence of public data on large private trusts is a glaring gap in our tax transparency regime.

To encourage tax compliance and curb money laundering, basic information on private trusts should be published by the ATO on a public register, akin to the register for companies. The privacy of beneficiaries of family trusts registered as such (apart from related entities such as trusts and companies) could be protected by excluding their details from the register.<sup>65</sup>

### Private companies

Private companies are also widely used to avoid tax, often in conjunction with discretionary trusts. These arrangements take advantage of the gap between the top marginal rate of personal income tax and the company tax rate.

### Recommendation 54 Curb the use of private trusts to avoid personal income tax and conceal income

1. From 1 July 2021, closely held express trusts (both discretionary and fixed) should be taxed as companies. This would not apply to certain categories of trusts including collective investment vehicles, complying superannuation funds, disability trusts, and trusts established pursuant to court orders.
2. Alternately, from 1 July 2021 Capital Gains Tax should apply to untaxed and preferentially taxed distributions to the beneficiaries of closely held discretionary trusts, including distributions arising from asset revaluations.
3. From July 2021, the scope of the corporate tax transparency regime should be extended so that the ATO publishes basic accounting and tax information on all business and investment entities (including companies, trusts and partnerships) with annual turnover over \$100 million.
4. A public register should be established by the ATO by July 2021 to hold the following information in regard to trusts that are required to lodge

---

<sup>65</sup> Where a family trust election is in force, the transfer of income or losses beyond beneficiaries who belong to the family that owns the trust is discouraged by a penalty tax.

tax returns: the names and tax file numbers of the trustee, controller, beneficial owner, any beneficiaries that are not natural persons (for example other trusts or companies), and (where the trust is not a family trust) all other beneficiaries.

*Revenue: \$0 million (\$1,500 million in 2021-22)*

The use of 'cashbox companies' to avoid personal income tax by retaining income in a private company should be curbed by taxing retained earnings (minus a reinvestment allowance for active businesses) in private companies at the top marginal personal tax rate plus Medicare Levy. This tax treatment would also apply to private trusts taxed as companies under the reform proposed above. Where the owner of the private company would ordinarily face a lower personal tax rate they could distribute company income to themselves in the form of dividends or wages.

This reform has become more urgent now that the company tax rate has fallen to 27.5% for companies with annual turnover below \$50 million. This change provided windfall gains to high income-earners using companies as business vehicles.<sup>66</sup>

### **Recommendation 55** Prevent the use of private companies to avoid personal income tax

From 1 July 2021, income retained in private companies, apart from a reinvestment allowance for companies engaged in active business (comprising a fixed proportion of the assets of the company), should be taxed at the top marginal rate of personal income tax plus Medicare Levy

*Revenue: \$0 million (\$1,400 million in 2021-22)*

## 10.5 Strengthen the integrity of the business income tax system

The government has implemented welcome reforms to tackle corporate tax base erosion and to prevent the shifting of profits offshore, including the introduction of a Diverted Profits Tax and a Multinational Anti-Avoidance Law (MAAL). More needs to be done. Too many corporations operating profitably in Australia pay little or no tax. Improving the financial transparency of multinational companies operating in Australia would help change this

---

<sup>66</sup> The lower company tax rate is restricted to active businesses, as distinct from passive investment vehicles. Nevertheless, incorporated active business entities with turnover of up to \$50 million include many owned by high income-earners (for example, professional practices). On the other hand, business owners with low to modest incomes are less likely to incorporate.

behaviour. Further, the 'thin capitalisation' rules designed to prevent the shifting of debt to Australia to avoid tax should be strengthened and the use of 'tax havens' or secrecy jurisdictions for this purpose should be discouraged.

### **Recommendation 56** Curb international business tax avoidance

Base Erosion and Profit Shifting by companies operating internationally should be curbed by making the following changes from July 2021:

1. Tighten thin capitalisation rules so that allowable debt deductions are based on a company's global debt-equity ratio.
2. Improve the transparency of reporting on business income and taxation flows by requiring public disclosure of the ultimate beneficial ownership of companies registered in Australia; requiring the ATO to publicly release 'high-level reports' under the OECD country-by-country reporting initiative in regard to companies with turnover above \$750 million; and requiring the ATO to share information on the tax status of trusts and partnerships as well as companies with other tax authorities pursuant to international agreements.
3. Apply special withholding taxes on transfers of funds to 'secrecy jurisdictions' that do not provide effective information exchange pursuant to international treaties.

*Revenue: \$0 million (\$500 million in 2021-22)*

## 10.6 Remove business tax concessions that encourage use of fossil fuels

The fuel tax offset for off-road use disproportionately benefits the mining industry. There is no public policy justification for favouring mining over other economic activity that contributes to economic growth and employment opportunities. The original rationale was that the purpose of fuel excise was exclusively to fund publicly used roads. This is questionable. Fuel taxation is a mechanism for generating general government revenue and reducing our reliance on environmentally harmful fossil fuels.

In [Chapter 6: Climate, extreme weather and energy](#), we argue that fuel tax credits for off-road use support emissions production and distort the need for energy efficiency, fuel switching, or investment in other forms of renewable energy or transport.

**Recommendation 57** Abolish fuel tax credits for off-road use  
Fuel tax credits for off-road use, except agriculture, should be abolished from July 2020.

*Revenue: \$4,500 million (\$4,600 million in 2021-22)*

## 10.7 Use the tax system to encourage healthy practices and fund preventive health care

### Sugary drinks

As discussed in [Chapter 8: Strengthen preventive health care and public health services](#), excessive sugar consumption is a major reason that almost two-thirds of residents in Australia are overweight or obese; one of the highest rates in the OECD.

We propose a tax on water-based drinks with added sugar as a first step towards reducing excessive sugar consumption since these often have a very high sugar content and have no nutritional value.

We propose a volume-based 'sugar tax' on water-based drinks with added sugar (not including unsweetened fruit juices) along the lines of the British tax on sugary drinks. That tax applies to drinks with sugar content above 5g/100ml and at a higher rate of up to 24p/litre for drinks with over 8g of sugar per 100ml. Soft drink manufacturers quickly reduced the sugar content of their products to bring them under the thresholds for higher taxation in the UK.

Revenue from the tax should be earmarked for preventive health and health promotion programs, including healthy eating and sports programs in schools, and a public subsidy for the transport of fresh food to remote areas. In remote Aboriginal and Torres Strait Islander communities, a fresh food transport subsidy would be a direct, equitable and cost effective way to improve health.<sup>67</sup>

---

<sup>67</sup> This could be modelled on a Canadian program, 'Nutrition North America', which provides a transport subsidy to food providers in remote, isolated regions. Funding is based on the total weight of fresh food products shipped to eligible communities, who must then pass on the savings to consumers.



## Recommendation 58 Introduce a 'sugar tax' on sweetened drinks

1. As part of a comprehensive strategy to reduce sugar consumption (especially among children) where this is harmful to health, and to better incorporate related health and social costs into its price; from 1 July 2020 a two-tier volumetric 'sugar tax' should be introduced for water-based drinks with added sugar (excluding unsweetened fruit juices) at rates of 30 cents per litre for drinks with 5-8 grams of added sugar per 100ml, and 40 cents per litre for those with over 8 grams of added sugar per 100ml;
2. Revenue from this excise should be earmarked for expenditure on preventive health care services, health promotion schemes focusing on healthy eating and fitness, fitness programs for children and young people, and a fresh food transport subsidy for remote areas.

*Revenue: \$0 million (\$500 million in 2021-22)*

## Alcohol

Overall alcohol consumption has fallen in Australia. However, there has been persistent growth in consumption of wine, and growing concern about the impact of excessive consumption of cheap wines on drinkers, their families and communities, especially its contribution to family violence.

A contributing factor is the inconsistent tax treatment of different forms of alcohol, in this case the much lower tax rates on wine which is effectively a form of producer subsidy.

The Wine Equalisation Tax (WET) and WET Rebate should be abolished and wine and ciders should be taxed at (two) uniform rates according to alcohol volumes, lying between the tax rates for brewed full strength beer and spirits.<sup>68</sup>

These reforms should be part of a wider strategy to reduce harmful consumption of alcohol including regulatory reform (especially regarding advertising and financing of sporting and similar activities by producers) and health promotion campaigns.

---

<sup>68</sup> According to modelling by ACIL-Allen Consulting for FARE (ACIL Allen Consulting (2015): [Alcohol tax reform: Economic modelling, ACIL Allen Consulting, Sydney](#). a common volumetric tax rate for wine at \$56.46 (half way between the full strength draught beer rate of \$33.16 and the spirits rate of \$79.77) would raise \$2.3B in annual revenue and reduce overall alcohol consumption by 7.1% (mainly by raising the cost of cask wines); The Henry Report also proposed a uniform volumetric tax. See Henry et al (2009): op. cit.

**Recommendation 59** Reform alcohol excise so that tax is levied consistently on the basis of alcohol content

1. As part of a comprehensive strategy to reduce alcohol consumption where this is harmful to health, and to better incorporate related health and social costs into its price, from 1 July 2020 the WET and WET Rebate should be abolished and wine should be taxed at a uniform rate of \$56 per litre of alcohol content and ciders at \$33 per litre;
2. The revenue from this excise should be earmarked for expenditure on preventive health care services, including prevention of foetal alcohol syndrome.

*Revenue: \$0 million (\$2,300 million in 2021-22)*

# 11. Aboriginal and Torres Strait Islander Budget Measures

Governments must support local, community driven solutions if they are serious about improving outcomes for Aboriginal and Torres Strait Islander people. Building capacity in communities is critical to improve the quality of life and wellbeing. ACOSS strongly supports the 'Uluru Statement from the Heart' and rejects the government's refusal to engage with Aboriginal and Torres Strait Islander people in their united plea to have a voice to Parliament. Giving Aboriginal and Torres Strait Islander people a say in the decisions that affect their lives will help ensure that we do things differently and more productively, and allow Aboriginal and Torres Strait Islander people to claim their rightful place in the nation.

The following recommendations (which are featured elsewhere in the submission) are priorities for reform with respect to policies, programs and services that affect Aboriginal and Torres Strait Islander people:

## Key recommendations

- Provide core funding for the institutional capacity of Aboriginal and Torres Strait Islander representation in policy making and national decision-making (see [Chapter 3: Improving access and affordability of essential community services](#)).
- Ensure Aboriginal and Torres Strait Islander children get access to high quality early education that is culturally safe, delivered by appropriately skilled teachers (see [Chapter 3: Improving access and affordability of essential community services](#)).
- Abolish compulsory income management and the cashless debit in all states and territories, putting in place both transition arrangements for individuals and communities wishing to retain voluntary income management and cashless card schemes; and opt-in schemes which have been co-designed with communities and to include supports and services as elected by communities, which could include financial counselling, drug and alcohol services, mental health and social support services (see [Chapter 4: Social security](#)).
- Replace the Community Development Program with a new employment services scheme for people in remote Aboriginal and Torres Strait Islander communities along the lines of the Remote Development and Employment Scheme proposed by APO NT, ensuring the new scheme maintains entitlements to social security payments

and does not discriminate against participants (see [Chapter 5: Improve job opportunities for people out of paid work](#)).

- Develop a new national Aboriginal and Torres Strait Islander housing strategy for urban, rural, regional and remote areas, and a new remote housing agreement (see [Chapter 9: Improving access to affordable housing](#)).
- Establish an Aboriginal and Torres Strait Islander Communities Clean Energy Fund to invest in clean energy and energy efficiency for remote communities, including solar and other subsidies for Aboriginal and Torres Strait Islander householders (see [Chapter 6: Climate, extreme weather and energy](#)).
- Fund a fresh food transport subsidy for remote communities from the revenue raised via a sugar tax (see [Chapter 8: Strengthen preventive health care and public health services](#)).

