



care DIGNITY
respect
change HOPE

Common Wealth

Submission in response to:

Re:think Better tax, better Australia
discussion paper

June 2015

www.anglicare.asn.au

Anglicare Australia

Anglicare Australia is a network of over 40 independent local, state, national and international organisations linked to the Anglican Church and which share values of service, innovation, leadership and the belief that every individual has intrinsic value. Our services are delivered to one in 45 Australians, in partnership with them, the communities in which they live, and other like-minded organisations in those areas. In all, over 13,000 staff and more than 7,000 volunteers work with over 600,000 vulnerable Australians every year delivering diverse services, in every region of Australia.

Anglicare Australia has as its Mission “to engage with all Australians to create communities of resilience, hope and justice”.

Anglicare Australia Values

Faith Based

In the spirit of the Gospel, Anglicare Australia through its member agencies, advocacy and research seeks to see the lives of all Australians transformed with hope and justice.

Equity and Justice

Anglicare Australia and our members work for social justice in Australia; to respect the inherent potential in every human being with special concern for those most disadvantaged.

Collaboration and Participation

Anglicare Australia and our members recognise that our work will be stronger when we work in partnership and collaboration and we adopt a participatory approach in all we do.

Strengths based

Anglicare Australia and our members recognise and seek to build on the strength of individuals, communities and organisations to effect change in Australia.

Anglicare Australia Strategic Goals

Building on our wisdom and practice across all our members and over 150 years of shared experience we aim to:

- influence social and economic policy across Australia with a strong prophetic voice; informed by research and the practical experience of the network; called to speak out for those most disadvantaged
- enable the potential, strength and sustainability of the members, ensuring that they have the capacity to serve the needs of all Australians with dignity, respect and care
- create a network whose members challenge, support and lead each other in the development of social services and the people and communities with whom we work
- recognise and celebrate the Anglican faith base and inspiration of our work.

Executive Summary

Anglicare Australia approaches this paper on our future taxation system with a broad view as to the system's goals.

In *Living Without Shame*, Anglicare Australia's final submission to the Henry Tax Review, we wrote about a capabilities approach to the ambitions we should hold for each other and in regard to our various contributions to our lives together. We wrote in some detail about focusing our thinking on citizenship and on the notion of our common wealth. The evolution of our economy and ongoing debate on social policy and welfare system in the years since then has strengthened Anglicare Australia's commitment to this view.

Anglicare Australia is inspired by its Anglican underpinnings and, with the fundamental tenet that we value every person among us, putting as our priority care for each other and the world we live on.

In its simplest sense, the purpose of taxation is to raise revenue to fund public services. Underpinning such a statement of the obvious lies an implicit contract between us all – as citizens and taxpayers, as to the kind of services we expect, and indeed the shape or the values of the society that via our government we support. It is fair to say that government has a moral responsibility to govern for all Australians. But finding a shared understanding of that responsibility is no easy matter.

It is simply not possible and certainly not desirable to have a simple discussion about tax without reflecting on where we are trying to go, and what fundamental values and common purposes we wish to enlist.

Adequacy of revenue. It is not enough then to argue that taxes should be equitable and efficient. Nor can we allow that lowering taxes is – in and of itself – always a good thing. We need to factor in the need for society to raise enough revenue as well.

Inequality and equity. The fundamental issue of equity and inequality here is that public services provided are not necessarily adequate or inclusive, in addition to the more obvious point about the equity of revenue raising processes themselves. The issue of equity is not just about the source of revenue and sharing out the investment, it is also about ensuring equitable outcomes.

Taxation levels and business. The presumption that lower business taxes are intrinsically good for shareholders, businesses, the economy and the society, is not supportable. Its repetition undermines thoughtful public discussion of our future tax systems. We should look at the impact of business taxation in two ways. Firstly, as the source a reasonable proportion of adequate revenue for the business of government and the provision of public services, and secondly, as one of the tools, we have as a society to encourage economic activities which contribute to our social and environmental wellbeing.

Income adequacy. Fundamental to a fair tax review is that it is framed as a collaborative exercise with all our interests at heart. Setting up taxpayers against welfare recipients, as this year's Budget papers have, is mean and unhelpful. It ignores the benefits everyone receives from

government services such as health, roads and security. It suggests that people are either taxpayers or welfare beneficiaries, when through the life span – and often at the same time – most of us are both. In its simplicity it also fails to recognise the level of benefit that advantage, inherited wealth, class, health and gender can endow someone who is in the position to pay more tax. It also steals from our growing sensitivity to the hardship which comes from living on inadequate income.

Affordable Housing. Housing supply and the rental market are complex and driven by many factors. However, the diminishing public investment in public and other social housing clearly adds to the pressure on affordable private rentals. Any long term investment in public housing would require growth in revenue rather than cuts to government expenditure. But it is the interplay of the existing capital gains tax regime and the negative gearing provisions that apply to private investment in housing that work most obviously to force up the price of housing across Australia, affecting new home owners and renters alike. And that is a direct matter for this taxation review. Consistent with our approach to both tax and social policy, Anglicare Australia is interested in starting conversation that looks at the social benefit of our public investment in negative gearing and capital gains tax concessions.

Retirement incomes. Another broad area where the Anglicare network experience offers useful guidance is in regards to life in later years and retirement income. Again, these are fundamentally questions of revenue, integrity and equity.

Indirect taxation. Anglicare Australia is not convinced that having a similar mix and level of taxation to all other developed countries is in itself a good thing. While GST levels in Australia may not be as high as equivalent consumption taxes are in many other countries, we do need to consider their impact here in Australia, as well as their efficiency. One of our key interests is to consider the specific impact of GST exemptions where they exist. It is when we look to see who is enjoying that advantage, and for what, that we can more understand the argument for the exemption where it exists.

Social and environmental impacts. There are a range of existing and possible taxes and duties that have a social or environmental, rather than strictly economic impact and rationale. Anglicare Australia holds the belief that such considerations are as important and as valid as those of the presumed economic effect on their design. In this paper we discuss just a few in terms of the purpose and possible effects in the context of our broader arguments regarding the values of the society we are working towards. Here we consider: carbon pricing; alcohol duty; inclusive employment; participation and inclusion; deductible gift recipient status; and the fringe benefit tax exemptions.

In looking at the whole question of taxation, we should also consider the accumulating advantage that comes with capital, property and power. A tax system which reinforces that advantage is inequitable, unhelpful and short sighted. And immoral. It is worth noting how far Australia has moved from being relatively progressive at federation, and for that matter after World War II, with an interest in ensuring the wellbeing and security of ordinary citizens, to today's widely shared embrace of the notion of equality of opportunity.

If we are to consider an approach to taxation which does reach beyond the shortest term, and is to provide the fuel for a healthier and less divided society and environment, then the economy itself needs to draw on, rather than exclude, the whole population. We, the people, need to be confident that the taxation and regulatory systems we have in place are fair and equitable, and don't accentuate inequality and disadvantage.

That's the bottom line.

Recommendations

Anglicare Australia has made a number of recommendations and suggestions as they relate to the principles or particular settings of Australia's tax and transfer system.

In relation to...

Taxation levels and business

Anglicare Australia supports rigorous consideration of the impact of taxation in the long term, especially in regard to resource exploitation.

Income adequacy

The establishment of a commission – much like the Fair Pay or Remuneration commissions – that could properly consider the cost of living people on pensions and allowances, and set them accordingly.

The interface between the tax and transfer systems needs to become porous overall, so there is more encouragement (and fewer penalties) for people who find themselves moving on and off allowances and in and out of work.

Affordable housing

If negative gearing is to be retained, it ought to be tied to investment in new properties in appropriate locations, into housing trusts or organisations that are specifically focussed on providing affordable housing for people on low to moderate incomes, and/or are linked in some way to providing tenants real security of tenure.

Retirement incomes

Anglicare Australia, along with many our sector, recommends the end of over generous taxation concessions on superannuation incomes so government can better invest in those people trapped on the margins of society. We would be happy, however, to start the process of reshaping the tax rules that apply to superannuation by looking first at what the existing system has achieved and has cost us.

Social and environmental impacts: carbon pricing

A retrospective, and independent, cost benefit analysis would contribute to a coherent approach to the social and environmental dimensions of tax policy in the Green Paper, which is due in the next few months.

Social and environmental impacts: alcohol duty

In the interest of public health and on the basis of informed public discussion, it would make sense to link the duty with the alcohol content of drinks (a volumetric tax) rather than with the type of alcoholic drink it is.

Social and environmental impacts: inclusive employment

Anglicare Australia would like the business tax, stamp duty and land tax concessions, employment related deductions and allowances to be reviewed in terms of the outcomes they deliver, noting the fundamental necessity to build sustainable work and real, valued participation in our society for people of all ages and backgrounds.

Anglicare Australia suggests that a category of work cooperatives and social enterprises be developed that can be supported through a mix of tax concessions. Noting the cost of subsequent tax concession or exemptions should be written off against the social and economic benefit of providing real ongoing jobs for people at risk of exclusion and ongoing under-employment.

Social and environmental impacts: participation and inclusion

Anglicare Australia argues that Australia should take a coherent approach to tax allowances and concessions that deliver benefits to the society as a whole and assist those who are working for the public interest or benefit.

Social and environmental impacts: deductible gift recipient status

Encouraging the continuation of public donation to the delivery of front line community or environmental services through the income tax exemption of donations may seem the highest priority. In essence it is the role of public funding to under write this kind of basic service.

Social and environmental impacts: fringe benefit tax exemptions

Anglicare Australia recommends reviewing the arrangements with the goal of maximising the benefit for employees on the lowest, rather than highest, incomes.

Future directions

The Green Paper poses as an instrument which can test all amendments to our taxation and transfer system for their impact on the most disempowered and vulnerable citizens.

Principles

Anglicare Australia approaches this paper on our future taxation system with a broad view as to the system's goals.

In *Living Without Shame*¹, Anglicare Australia's final submission to the Henry Tax Review, we wrote about a capabilities approach to the ambitions we should hold for each other and in regard to our various contributions to our lives together. We wrote in some detail about focusing our thinking on citizenship and on the notion of our common wealth. The evolution of our economy and ongoing debate on social policy and welfare system in the years since then has strengthened Anglicare Australia's commitment to this view.

Anglicare Australia is inspired by its Anglican underpinnings and, with the fundamental tenet that we value every person among us, putting as our priority care for each other and the world we live on.

In its simplest sense, the purpose of taxation is to raise revenue to fund public services. Underpinning such a statement of the obvious lies an implicit contract between us all – as citizens and taxpayers, as to the kind of services we expect, and indeed the shape or the values of the society that via our government we support. It is fair to say that government has a moral responsibility to govern for all Australians. But finding a shared understanding of that responsibility is no easy matter.

Anglicare Australia aims to be as clear as possible in this paper in presenting its view of the goals of government, the source of government revenue and the impact that revenue gathering may have on our behaviour and wellbeing.

There is a question about what models have inspired the existing discussions on tax, and what world views, moral approaches to society, appear to have been ruled out (whether implicitly or explicitly) *en route*.

However while a more emphatically inclusive - equitable even - socialised approach to education, social services and health has yet been able to feature in this debate. To be restricting the thinking in this way risks making the whole exercise pointless.

It is simply not possible and certainly not desirable to have a simple discussion about tax without reflecting on where we are trying to go, and what fundamental values and common purposes we wish to enlist.

¹ Anglicare Australia, 2009, *Living Without Shame*, Anglicare Australia: Canberra, <http://www.anglicare.asn.au/userfiles/document/file.4f2b303c6e629.pdf>

Adequacy of revenue

It is not enough then to argue that taxes should be equitable and efficient. Nor can we allow that lowering taxes is, in and of itself, always a good thing. We need to factor in the need for society to raise enough revenue, as well.

That is why, when we look at funding health, for example, we need to ensure there is adequate funding for a health system that works most emphatically for those who are the most disadvantaged. We also need to ensure the impact of the taxation regime itself improves rather than undermines people's health.

Much as income inadequacy is so often avoided in discussing the circumstances of people on the margins of Australian society, the question of *revenue* inadequacy appears to be missing from the *Re:think* tax discussion paper. However, given it is said that everything is now on the table, Anglicare Australia sees no need for the conversation on tax to continue to avoid the issue. More to the point, we cannot explore a fair and efficient tax system that could support the society we are working towards in the context of lower taxes and revenue.

Inequality and equity

Equity is perhaps in the eye of the beholder but inequality is not.

The most recent OECD report on inequality² shows growing inequality across the world, and argues for the broad economic and social benefit of a more equal, rather than less equal, society. It notes that it is not pensioners who are most likely to live in poverty anymore, it is young people and families. Mr Li Ka-Shing, widely regarded as the richest person in Asia earlier this year, warned "[w]idening inequality in wealth and opportunities, if left unaddressed, could fast become 'the new normal'" and that this inequality is one of the things that is keeping him awake at night.

Here in Australia, we are seeing a growing inequality at both ends of our society. Some being left further behind (young people without work and without a family, for example), while others are living in a different and much more affluent world.³

Thomas Picketty's recent book, *Capital in the Twenty-First Century*⁴ provides international data which quantifies the seemingly inexorable, structural shift of wealth to the wealthiest. As Lyons and McAuley point out in *Governomics*⁵, the fall of the communist block appears to have allowed capitalism a freer rein to embrace inequality under the guise of opportunity at – it would seem – an increasing cost of exclusion for those being left behind.

² OECD, 2015, *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris. DOI: <http://dx.doi.org/10.1787/9789264235120-en>

³ Leigh, A, 2015, 'Why should we care about inequality?' presented at the 2015 Economic and Social Policy Lecture, University of Wollongong 21 May 2015, accessed http://www.andrewleigh.com/why_should_we_care_about_inequality_2015_social_and_economic_policy_lecture

⁴ Picketty, T., 2014, *Capital in the Twenty-First Century*, Harvard University Press: Cambridge.

⁵ McAuley, I., Lyons, M., 2015, *Governomics*, Melbourne University Press: Melbourne.

In terms of equity, the Rawlsian notion of using a veil of ignorance to ensure we plan for the kind of society we want – or in this case structure our taxation system – is a good place to start. Policy of course would still be informed by intelligence, analysis and expertise. But with a veil of ignorance on place, it would not be informed by self-interest.

And so the interplay of capital gains tax and negative gearing for instance – which is encouraging a shift in home ownership from the poorer to the wealthier, as discussed below – might not seem such an attractive or desirable arrangement to those who seem bent on retaining it if they could as easily find themselves on the poorer side of the equation. And while there may be a coherent argument as to how we all – rich and poor alike – benefit from the formula nonetheless, the case would still need to be properly made.

And if we wanted to take inequality into account as well as equity, we might consider probability from behind the veil as well. What proportion of people would benefit from, say, inflated house prices? What kind of businesses can most effectively rearrange their income and assets in order to minimise their tax, and what scale of operation and affluence, and political influence, are these beneficiaries likely to have?

As pointed out above, Anglicare Australia's primary interest in looking at our future tax system is in regard to the impact it has on the most disadvantaged, least powerful, most excluded members of society. It is not hard to see who is benefiting from growing inequality and who is not.

The argument about the relative tax 'burden' has recently been directed to the greater contribution that is, on average, made by those who are the wealthiest. That needs to be acknowledged. While nearly all of us are variously taxpayers *and* recipients of government support (from roads, policing and health services to pensions and childcare subsidies), the bulk of government revenue comes from those who have the highest incomes and most of the wealth. That is the natural effect of a progressive tax system, and one of its strengths.

However, the argument usually implies, inaccurately, that the rest of us owe the most affluent some form of gratitude because of that. This is a facile take on a complex situation, given no one with great wealth can find themselves or remain in that situation without some contribution from those less well off in the first place; and the same higher tax payers access more of many services funded by taxation, such as Medicare funded psychologists,⁶ and other in-kind services⁷ than do the poor. In part that's a function of access – there are more GPs (and more bulk billing GPs in competition with each other) in central Melbourne and Sydney – but also service use of specific services.

The fundamental issue of equity and inequality here is that public services provided are not necessarily adequate or inclusive, in addition to the more obvious point about the equity of revenue raising processes themselves.

⁶ Meadows, G.N., Enticott, J.C., Inder, B., Russell, G.M., & Gurr, R., 'Better access to mental health care and the failure of the Medicare principle of universality', *Medical Journal of Australia*, doi:10.5694/mja14.00330.

⁷ Phillips, B., 2014, 'Middle Class Welfare in Australia', presented at the 2014 Future of Welfare Conference, Melbourne, 31 October 2014, <http://www.slideshare.net/informaoz/ben-phillips>

The funding of our education systems are a case in point. There are eight systems with three sectors in each – government, catholic and independent – and all government funded to a greater or lesser extent. Most students with high needs, and the most disadvantaged, attend government schools. Well before the highly regarded (Gonski) *Review of Funding for Schooling* was conducted it was clear that children from low socio-economic backgrounds were at the greatest risk of poor educational outcomes, which is essentially to the detriment of us all. Noting that 42% of 17-24 year olds from the most disadvantaged backgrounds were not fully engaged in work or study, compared to 17% among most advantaged.⁸

Nonetheless it is proving to be a rough process to gather the funding commitments across the out year to implement the Gonski plan as agreed, while we see the growing number of students attending non-government schools attracting a matching, growing, public investment.

The issue of equity is not just about the source of revenue and sharing out the investment, it is also about ensuring equitable outcomes. In terms of schooling, a part of that equity lies in funding for need.

There are also obvious issues of concern regarding the integrity of a system if it offers some of the more affluent members of our society a way of paying less tax. As the more detailed discussion of capital gains tax exemptions and negative gearing and superannuation below point out, the tax system as it exists provides many tax minimising opportunities for those with greater resources, which are simply not available to the majority of taxpayers. If the tax system is to serve its broader purpose it needs to have integrity at its heart.

When it comes to inclusion, a key concept in Anglicare Australia's vision for our society, those who face exclusion through hardship, poverty or difference, really need to see the most comfortable citizens are prepared to invest in them.

The current Budget includes an initiative to pursue welfare recipients more vigorously for failures to accurately report their incomes. That flies on the face of the actual experience of many Centrelink clients who cannot get the department to accurately update their records. The result is that Australian people are encouraged, once again, to conclude that those they support through the welfare system are defrauding it. On the other hand, we rarely see the same rhetoric about pursuing those that avoid paying their fair share of tax.

Small government and harsh penalties might tell a clear and simple story, but there is every reason to believe a more capable, well focussed and adequately resourced public service would yield better tax revenue and lower welfare costs across the board.

⁸ COAG Reform Council, 2013, *Education in Australia 2012: Five years of performance*.

Taxation levels and business

The *Re:think* tax paper does acknowledge that Australia is not a highly taxed country, although so much of the debate and discussion around it suggests otherwise. What the paper does emphasise however, is the relatively high proportion of this lower burden of taxation which is personal and business income tax.

Consequently there is considerable discussion about how these different levels of taxation can influence or distort the behaviour of profitable business and wealthy individuals, resulting in lower government revenue and rates of economic activity. That is one of the key arguments behind the push to cut income taxes and increase the GST.

It is a position based on the presumption that tax is by definition a disincentive. A *Tax White Paper* animation asserts every dollar collected in company tax reduces the living standards of Australians by 50 cents. But there is considerable economic analysis available – see Nobel prize winning Joseph Steiglitz (1973, 2012) to start – which suggests that is not the case, and businesses will invest to the point that the cost of capital exceeds their returns, tax or no tax. That's backed up by the evidence that business investment is already coming into Australia from lower taxing jurisdictions, such as Singapore and Korea. So it's clearly not the level of taxes which *ipso facto* drives investment, it is the investment opportunity itself.

It would seem the greater cost to Australia is through the manipulation of profits by international businesses, exemplified by the 'Singapore sling' attributed to BHP Billiton and Rio Tinto, and the 'Double Irish with a Dutch sandwich' attributed to Apple, among others. While that may *reflect* different tax rates, joining in a race to the bottom would simply reward deception rather than expose it.

There are other ways too of protecting revenue over the long term. Too rapid a development of our resources throughout the recent the mining boom seems to have been a factor in the drop in iron ore prices, and as a consequence, the matching fall in business tax and royalties. A properly constructed resource rent tax – as mining companies themselves had earlier proposed – may have discouraged some of the rush to maximise returns (and earn a super profit) in the short term.⁹

There is little value in Anglicare Australia prosecuting a finely detailed argument on the practical and theoretical impacts of taxation on business. Rather we make the following key points.

- The presumption that *lower* business taxes are intrinsically good for shareholders, businesses, the economy and the society is not supportable. Its repetition undermines thoughtful public discussion of our future tax systems.
- We should look at the impact of business taxation in two ways. Firstly, as the source a reasonable proportion of adequate revenue for the business of government and the provision of public services, and secondly, as one of the tools we have as a society to

⁹ Mining Tax Facts, n.d., *The Facts*, Mining Tax Facts, Sydney, viewed 10 June 2015, <http://www.mining-tax.com.au/>.

encourage economic activities which contribute to our social and environmental wellbeing.

Anglicare Australia supports rigorous consideration of the impact of taxation in the long term, especially in regard to resource exploitation.

Income adequacy

At the highest and developed level, Anglicare Australia argues here, as it did in 2009, that the underpinnings of an equitable society are a guaranteed and adequate income, access to safe and secure housing, high quality education and health care.

The purpose of this paper – to respond to the government’s *Re: think* discussion of our tax system – does not take us into that assessment of income adequacy in any detail. But the principle of raising sufficient revenue to ensure an adequate income for those, who for various reason are without work and wealth, is key.

The evidence from the Anglicare network is overwhelming. As our national study of food insecurity and research on household expenditure for those on the lowest incomes [see [When There’s Not Enough to Eat: Income Policies¹⁰](#)] shows us Australia can never be a society which values all its citizens and nor can it profit from their various contributions, if the most vulnerable continue to be left behind in hardship and poverty by a combination of economic circumstances and public policy.

Of course when it comes to income support, adequacy is essentially a function of the level of revenue and the commitment of government to deliver it. The Review of Australia’s Welfare System commissioned by the current government and released in February this year proposed a regular arm’s length review of the adequacy of the various benefits. More recently, in another context, the Minister for Social Services suggested a regular independent review of the adequacy of age pensions. **These positions reflect, in a minimal way, an approach that Anglicare Australia and others have been championing for many years, which is a commission – much like the Fair Pay or Remuneration commissions – that could properly consider the cost of living people on pensions and allowances, and set them accordingly.**

Fundamental to a fair tax review is that it is framed as a collaborative exercise with all our interests at heart. Setting up taxpayers against welfare recipients, as this year’s Budget papers have¹¹, is mean and unhelpful. It ignores the benefits everyone receives from government services, such as health, roads and security. It suggests that people are either taxpayers or welfare beneficiaries, when through the life span – and often at the same time – most of us are both. In its simplicity it also fails to recognise the level of benefit that advantage, inherited wealth, class, health and gender can endow someone who is in the position to pay more tax. It

¹⁰ Anglicare Australia, 2012, *State of the Family report When there’s not enough to eat volume 1 – essays*, Anglicare Australia: Canberra.

¹¹ Jericho, G., ‘If you are going to compare incomes do it fairly’, *The Drum*, 20 May 2015, <http://www.abc.net.au/news/2015-05-20/jericho-budget-2015-unfair-comparisons-of-income-and-welfare/6480576>

also steals from our growing sensitivity to the hardship which comes from living on inadequate income.

At a practical level, the experiences of people relying on income support to some extent or another can tell us a lot about how to improve the interface between the tax and transfer systems. Over the past few years there has been quite a bit of adjustment made to taper rates for pensions and allowances, so the cost in lost concessions, benefits, rebates and housing support doesn't completely overwhelm any small advantage which comes from gaining or extending a part time job or a contract.

But it is not just a question of the taper. The changing shape of the workplace has seen an increase in the proportion of casual, part time and irregular jobs. **The interface between the tax and transfer systems needs to become porous overall, so there is more encouragement (and fewer penalties) for people who find themselves moving on and off allowances and in and out of work.**

Affordable Housing – negative gearing and Capital Gains Tax concessions

There are a number of areas of tax policy which need to be seen through an equity or social benefit lens, and are perhaps symptomatic of the problems we face with our tax system overall. One of the key insights the Anglicare Australia network can offer relates to the critical shortage of affordable rental housing, and the way our tax system appears designed to accentuate the problem.

Anglicare Australia's sixth national [Rental Affordability Snapshot](#)¹² surveyed over 65,000 rental properties this year and found an extraordinary shortage of housing affordable to people on the lowest incomes. Indeed, of the more than 50,000 dwellings available in Australia capital cities on that weekend in April, only *one* would have qualified as affordable for someone on Newstart: and that was a lounge room in a share house.

Housing supply and the rental market are complex, and driven by many factors. However, the diminishing public investment in public and other social housing clearly adds to the pressure on affordable private rentals. Any long term investment in public housing would require growth in revenue, rather than cuts to government expenditure.

But it is the interplay of the existing capital gains tax regime and the negative gearing provisions that apply to private investment in housing that work most obviously to force up the price of housing across Australia, affecting new home owners and renters alike. And that is a direct matter for this taxation review.

¹² Anglicare Australia, 2015, *Rental Affordability Snapshot 2015*, Anglicare Australia: Canberra.

There is no shortage of analysis on the effect. Recent ACOSS papers [An Affordable Housing Reform Agenda](#)¹³, released in March and [Fuel on the fire: negative gearing, capital gains tax and housing affordability](#)¹⁴, released in April, tease apart the influence these tax rules have on private investor behaviour and the result it is in terms of housing price and availability. The Grattan Institute's [Renovating housing policy](#)¹⁵ similarly argues by *increasing demand for [residential property, these policies help to push up property prices and lock many homebuyers out of the market.* The Australia Institute found that 93% of negatively geared investment goes to into established properties ([Top Gears](#))¹⁶.

As Anglicare Australia's Rental Affordability Snapshot indicates, Australians are not seeing an increase in supply of appropriate housing; we are seeing an increase in the price and competition for existing houses instead.

Anglicare Australia acknowledges there are other elements needed to put together a coherent response to the housing affordability crisis. It requires the involvement of all levels of government, including an approach to land release, urban development and housing finance, which would support the provision of secure and affordable housing for low income earners. Taxation rules, however, which clearly are a part of the problem, need to be a part of the solution.

The Australia Institute's recent analysis of the cost and impact of these tax provisions, [Top Gears](#)¹⁷, puts the annual cost of the negative gearing capital gains tax discount at \$7.7 billion, with more than 70% of that benefit flowing to the top 10% of income earners. The Australian community should expect to get something significant in exchange for that kind of benefit.

Consistent with our approach to both tax and social policy, Anglicare Australia is interested in starting a conversation that looks at the social benefit of our public investment in negative gearing and capital gains tax concessions.

If negative gearing is to be retained, it ought to be tied to investment in new properties in appropriate locations, into housing trusts or organisations that are specifically focused on providing affordable housing for people on low to moderate incomes, and/or are linked in some way to providing tenants real security of tenure.

¹³ ACOSS, 2015, *An Affordable Housing Reform Agenda*, ACOSS: Sydney.

¹⁴ ACOSS, 2015, *Fuel on the fire: negative gearing, capital gains tax and housing affordability*, ACOSS: Sydney.

¹⁵ Kelly, J.F., *Renovating housing policy*, The Grattan Institute: Melbourne.

¹⁶ Grudnoff, G., 2015, *Top Gears: How negative gearing and the capital gains tax discount benefit drive up house prices*, The Australia Institute: Canberra.

¹⁷ *Ibid.*

Retirement incomes

Another broad area where the Anglicare network experience offers useful guidance is in regards to life in later years and retirement income. Again, these are fundamentally questions of revenue, integrity and equity.

Many of the people Anglicare services work with are reaching the end of their working years, with very few resources behind them. Where people have been unable to sustain high quality employment, have found themselves out of work late in their careers, no longer own or have never owned their own home, who are alone or whose families have broken, gaining access to appropriate care and support in later life, as well as (more positively) social inclusion and engagement, is a vital but somewhat uncertain thing.

The age pension is a fundamental safety net for us all. Recent public discourse has pointed to its growing cost to the Budget as our population grows and ages. Budgets over the past few years have seen the age pension age pushed further out, its rate of increase flagged for reduction and the level of income and assets where it cuts out completely brought down.

While the age pension is perhaps the most 'generous' of Australia's pensions and allowances, full pensioners – those relying solely on the aged pension – are not *comfortably* provided for. The reality of life for many of the pensioners that Anglicare agencies see is that costs to their house, if they have one, or rent where they don't, support for other family members, transport and utilities, can all be significant. For those without resources behind them, any unexpected expenditure may trigger a long series of financial and health difficulties. And while the formal health system itself provides essential low cost access to high quality health service, the aged care and support systems across Australia are now introducing some degree of fees and charges at all levels.

As discussed above, Anglicare Australia supports the establishment of an independent body or commission to regularly consider the adequacy of government pensions and allowances. As a developed, safe and richly endowed nation, the Australian people can afford to safeguard the living standards of their older compatriots. It is neither true nor fair to imply age pensioners are a threat to our standard of living, nor to assume that our growing life expectancy will result across the board in the capacity of people to remain, in the same way, a part of the paid workforce.

Anglicare Australia has generally supported this year's initiative to look carefully at the pension cut-off points to ensure it is focused on supporting those who need it, and the notion of a part pension does not become an almost universal entitlement by default. This is however a complex exercise, and in that light a pointless exercise if the tax rules that enormously advantage the most affluent Australians in their retirement are not also reshaped.

Much as the arguments around negative gearing and capital gains tax concessions have been well ventilated over the past months, so has the growing scale of income tax expenditure on superannuation, with annual revenue forgone likely to overtake the cost of aged pensions in the

next few years, and with over 60% of the total benefit of those tax concessions flowing to the top 20% of income earners.¹⁸

It is particularly unfortunate the government appears to have ruled out working this out through the tax white paper process. Many non-partisan advocacy groups, such as the [Business Council of Australia](#) and [Council on the Ageing \(COTA\)](#), have called for a comprehensive review of retirement income, in order “to take the blame game out of the Budget debate,” as BCA Chief Executive Jennifer Westacott put it at the time, and to ensure everyone could believe they are being treated fairly.

Anglicare Australia’s key interests on this matter – as we make clear above – are to ensure adequate income for people reliant on pensions and an equitable approach to raising the necessary revenue. As the Australia Institute pointed out in [Sustaining us all in retirement](#), were government to make age pension a universal entitlement and scrap all superannuation tax concessions at the same time, it would be possible to raise the pension by 25% to the benefit of more than 80% of the aged population; particularly those who have had broken or insecure employment histories – a group that includes carers, people living with illness, many mothers, members of minority groups, and so on.

It might be a step too far, right now, to turn the existing system on its head. But this analysis indicates the opportunity cost Australians are paying in providing a total tax exemption for retirement income earned within superannuation accounts.

It is worth noting the government’s own Financial Systems Inquiry (FSI), the Commission of Audit, and indeed this tax discussion paper have all raised concerns about superannuation tax concessions, paying particular attention to the distortions in investment and behaviour the current system encourages. The FSI report notes “the superannuation system is being used for purposes other than providing retirement incomes”. As the Australia Institute points out, that is in essence aggressive tax planning. It offers the most affluent members of our society an incredible opportunity to minimise their taxation at the broader social cost of us all.

Anglicare Australia would like this tax discussion paper process – indeed the government and the people of Australia – to address the underlying issue here, as to the purpose of the rules that apply to the superannuation and income tax of nominally retired Australians.

It is worth reflecting on the fact that much work in the social services is now seen through the prism of an evaluation framework. We aim for our policies and programs to be evidence based, with that evidence gathered through a proper evaluation. The evaluation framework begins when we define the goals or the purposes of the program. The current taxation regime as it applies to superannuation has been in place now for more than 10 years. As we understood it, the policy goals of these initiatives were to encourage and support people in taking responsibility for funding, where possible, their own retirement, in a way that was also sustainable for the Australian government.

¹⁸ The Australia Institute, 2015, *Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices*, The Australia Institute: Canberra.

Anglicare Australia, along with many our sector, recommends the end of over generous taxation concessions on superannuation incomes so government can better invest in those people trapped on the margins of society. We would be happy, however, to start the process of reshaping the tax rules that apply to superannuation by looking first at what the existing system has achieved and has cost us.

Indirect taxation – GST

Anglicare Australia is not convinced that having a similar mix and level of taxation to all other developed countries is in itself a good thing. While GST levels in Australia may not be as high as equivalent consumption taxes are in many other countries, we do need to consider their impact here in Australia, as well as their efficiency. And the hypothecating of GST revenue to the states is convenient but not a satisfactory way of ensuring an appropriate distribution of funds for state level services, as ongoing contestation of grant committee and federal government decisions make clear. It is timely, however to evaluate the impact of the GST. The notion of putting everything on the table in the hope of an open discussion is a good one.

One of our key interests is to consider the specific impact of GST exemptions where they exist. It is when we look to see who is enjoying that advantage and for what that we can more understand the argument for the exemption where it exists. Fresh food for example and other basics, such as water and sewerage are essential to everyone. Introducing a consumption tax on these items would merely increase the overall cost of living for everyone and make everyday life and wellbeing just a little more difficult and unhealthy for those who are struggling. That kind of analysis may throw up very different outcomes when we look at say extending GST to private health insurance and private school education, which are without doubt discretionary expenditure.

Finally, Anglicare Australia along with most along with other civil society actors would like to see the evolving shape our national and global economies factored in to the approach we take to taxation in general. The recent decisions to impose GST on Uber car sharing and Netflix film and TV streaming are clearly steps in that direction, although just ahead of this review they appeared a little *ad hoc*.

Social and environmental impacts

There are a range of existing and possible taxes and duties that have a social or environmental, rather than strictly economic, impact and rationale. Anglicare Australia holds the belief that such considerations are as important and as valid as those of the presumed economic effect their designs have. In this paper we discuss just a few in terms of the purpose and possible effects in the context of our broader arguments regarding the values of the society we are working towards.

Carbon pricing

The recent approach to carbon pricing offers an important opportunity to analyse the social, environmental and economic outcomes that a taxation initiative can deliver. Unfortunately, it doesn't appear the Australian government has yet conducted such an analysis.

It behoves us to be cognisant of the fact the cut to government revenue that came with the abolition of the carbon price – in a time of dramatically falling business and income tax receipts – was substantial. Either Australia is further in deficit as a result, or the government has had to make additional cuts to cover that loss in revenue.

The termination of the carbon price also saw an immediate leap in the use of high emission, cheaper and dirtier brown coal, which has led to an overall rise in climate change emissions. Perhaps the government will now take direct action and purchase a reduction in brown coal use. However that would appear to be a retrograde step in terms of both financial and environmental outcomes.

The carbon pricing mechanism was part of a suite of measures aimed at supporting a transition into a low carbon economy, with economic, employment and environmental outcomes. It is widely considered to have been a sophisticated and well-considered approach to a complex set of interlocking challenges which – in the context of a wholesale review of taxation – warranted a close analysis.

It would be at odds with the whole notion of this review, where everything is said to be on the table, if this particular initiative was to remain left behind, unremarked, merely because it was not the preferred strategy of a party seeking election at the time it was introduced.

Anglicare Australia contacted the bettertax.gov site and the Treasurer's office seeking any analysis of the impact of the carbon price, but none was forthcoming.

A retrospective – and independent - cost benefit analysis would contribute to a coherent approach to the social and environmental dimensions of tax policy in the Green Paper which is due in the next few months.

Alcohol duty

There has been considerable discussion of the price of alcohol, and the relevance of price as a factor in limiting alcohol abuse, particularly among young people. Australian public policy has come a long way with tobacco in terms of both price signals and health messaging. Government has however been more equivocal in other legal areas of risky behaviour and addiction, such as gambling and alcohol.

The tax discussion paper includes a table which illustrates the historically derived and inconsistent application of duty onto alcohol products. **In the interest of public health, and on the basis of informed public discussion, it would make sense to link the**

duty with the alcohol content of drinks (a volumetric tax) rather than with the type of alcoholic drink that it is.

The issue here, and with tobacco duty and gambling fees, is their value as a source of revenue can run counter to the public health benefits of elimination or lower consumption. We may not have a national goal to end the use of alcohol. On the other hand, significantly reduced alcohol consumption across society, among people of all ages, would have many social and health benefits. Any decisions made in regard to alcohol duty should be made with those considerations front of mind and with sectional industry interests held at a lower level.

Inclusive employment

There are many business tax, stamp duty and land tax concessions, employment related deductions and allowances already in play in this country. **Anglicare Australia would like them to be reviewed in terms of the outcomes they deliver, noting the fundamental necessity to build sustainable work and real, valued participation in our society for people of all ages and backgrounds.**

As a nation we would do better on a multitude of fronts if we used all avenues to support the creation of meaningful employment for people living with disability and illness, as well as those facing exclusion for broader social and cultural reasons. An appropriately structured tax system has a role to play here.

The complications lie in the fact that the kind of enterprise most relevant to work creation may sit somewhere between conventional business and a not-for-profit social enterprise. There are models of development around the world that support state and business investment in projects and enterprises with identified community benefit.

One of the key tools to support the development of social enterprises is positive procurement, although that is strictly outside the domain of taxation.

There is however, considerable work happening at national and municipal level on supporting state and business investment in social enterprises and sustainable development.

Italian social cooperatives, for example, receive individual tax exemptions for employing disadvantaged people and business tax cuts. While member-employees are paid normal wages, profits from the business must be reinvested. The very effective community based mental health services in north east Italy owe much of their continued success to the opportunities the social cooperatives provide.

CEIS (Community Enterprise in Scotland) is working with government and business to build investment vehicles with tax relief for community and social investment, and looking to this form of deliberate inclusion as a key strategy in their Scottish economic development.

There are also land tax exemptions available to municipalities in Europe who work in partnership with business enterprises run by marginalised groups, with substantial flow on of social and economic benefits.

Similarly, with the success of microfinance across Asia and Africa, we are now seeing tax concessions offered to banks on the income generated by loans to social enterprises to encourage further investment.

Anglicare Australia suggests a category of work cooperatives and social enterprises be developed and supported through a mix of tax concessions; noting the cost of subsequent tax concessions or exemptions should be written off against the social and economic benefit of providing real ongoing jobs for people at risk of exclusion and ongoing under-employment.

Participation and inclusion

There are also significant dimensions to the impact of tax allowances and provisions on individuals seeking employment or contributing in other concrete ways to our wellbeing. Again, there is a plethora of allowances and provisions already. The issue must really be to take a holistic approach to these arrangements and judge their value on behalf of the whole community, with a particular focus on addressing the impact of disadvantage and exclusion.

By way of example, Anglicare Australia draws attention to People with Disability Australia's call for comprehensive tax offsets for mainstream supports, such as costs of tailored clothing, taxis or maintaining a car, which people with disability may encounter in seeking to maintain their employment.

Similarly there are costs around providing foster care, for example, that may not be factored into the service agreements. Anglicare Central Queensland serves country centres that were at the heart of the recent mining boom. Again, by way of example, the skyrocketing cost of rent meant one of their foster families, who were living on low incomes themselves, found that they simply couldn't afford to house foster kids any longer.

It is never as simple as the provision of a government service or the application of a targeted tax concession to resolve a social issue. **Anglicare Australia however, is arguing that Australia should take a coherent approach to tax allowances and concessions that deliver benefits to the society as a whole and assist those who are working for the public interest or benefit.**

Deductible gift recipient status

Australia needs a sophisticated approach to addressing the obvious national and global challenges we face. Recent public debate on the DGR status of advocacy and social action organisations may seem to have some substance, if we could imagine the interests of all were reflected in a level playing field. The tax regime, as it stands

however, allows businesses to any scale to write off the costs of advocating as business expense. Not-for-profit community organisations, whatever their donor base, are at a disadvantage when it comes to funding the contest of ideas.

This is another aspect of importance of an equitable approach to taxation. While **encouraging the continuation of public donation to the delivery of front line community or environmental services through the income tax exemption of donations may seem the highest priority, in essence it is the role of public funding to under write this kind of basic service.** Providing avenues for those to find a voice, to advocate for change, is perhaps the more suitable use of that concession; and where we can, encourage citizens independently to make a (tax free) contribution. The social dividend here is in fact a democratic one.

Fringe benefit tax exemptions

There are a range of employee related tax concessions available to charities and other PBI entities, which have evolved in recognition of the flow-on benefits of not-for-profit service provision and the generally low pay structure of employment in the field. **Anglicare Australia recommends reviewing the arrangements with the goal of maximising the benefit for employees on the lowest – rather than highest – incomes.**

Directions

In looking at the whole question of taxation, we should also consider the accumulating advantage that comes with capital, property and power. A tax system which reinforces that advantage is inequitable, unhelpful and short sighted. And immoral.

It is interesting to note the public reaction to media coverage of the senate inquiry into business taxes, when the tax minimisation strategies of global businesses such Apple and Google were shown up (the 'double Irish with Dutch sandwich', as above). A similar analysis of nominally Australian businesses such as BHP Billiton and Rio Tinto also points to enormous financial advantage accruing to business leaders and major investors,¹⁹ as in the 'Singapore Sling'. It is not hard for the Australian public to see these instances of corporate advantage as both costly to the rest of us, and unfair.

Of course, many Australians are somewhat complicit in these kinds of tax minimising arrangements through the managed investments of their superannuation funds. But those on average and lower incomes generally have significantly lower investments in shares and superannuation, in any event, and would potentially be much better off through higher quality or more far reaching public services than any slightly higher return on a small personal investment.

¹⁹ The Australia Institute, 2015, *Corporate Tax Avoidance*, The Australia Institute: Canberra.

But the same thing applies to individuals and families too. And the inequity and inequality at that level has profound implications.

Limiting our analysis here to those areas where the national Anglicare Australia network has the most immediate knowledge returns us to the issue of housing. Without a doubt home ownership underpins the wellbeing, access to services and community connectedness of the majority of older Australians. The growing price of housing however, is putting a home out of the reach of a growing number of Australians. However, Australia's existing tax system supports the accumulation and inheritance of property, by exempting the 'family home' from capital gains tax, and thereby encourages investment in housing designed to maximise the inherited wealth of family members, at the cost of housing which is more affordable for new home owners and renters alike.

We have already discussed the inequity of a superannuation taxation arrangement, which also specifically accelerates the relative wealth of the most wealthy Australians in their last years of life. There are a number of other unwarranted advantages available to the most advantaged, such as the blanket exemption of family homes, whatever its value, in pension asset tests and some of the rules that apply to family trusts.²⁰

It is worth noting how far Australia has moved from being relatively progressive at federation, and for that matter after World War II, with an interest in ensuring the wellbeing and security of ordinary citizens, to today's widely shared embrace of the notion of equality of opportunity.

The evidence from our network, and much more widely, is that without a commitment to delivering outcomes (more equal educational and health outcomes for example) and the matching preparedness to raise the revenue needed to fund the necessary investment, the notion of equality of opportunity is just hokum.

In short, it can never be an equitable taxation system if the enthusiasm for encouraging and supporting economic activity comes at the price of leaving the least resilient and the poorest further behind. **Anglicare Australia would like to say the Green Paper poses as an instrument which can test all amendments to our taxation and transfer system for their impact on the most disempowered and vulnerable citizens.**

Finally, it is in the investment side of the equation that the real changes need to be made. The richest resource we should be mining is our people, in all in our diversity and capability. Whatever our age, or health status, or history. That may not appear to be relevant in a dry review of taxation, but if the tax rules that exist continue to advantage the already advantaged, as is so evident in some of the discussion above, then it is hard to see how this richer diversity of citizens can believe it has a stake in this society.

Public commentary on governments and political leadership often derides concern over environmental protection, care for *others* and social inclusion. In one way or another, it gets reduced to the famous Clinton maxim; it's the economy stupid.

²⁰ Coorey, P. & Martin, P., 'Hockey beats swift retreat from family trust tax proposal', The Sydney Morning Herald, 8 April 2011, viewed at <http://www.smh.com.au/national/hockey-beats-swift-retreat-from-family-trust-tax-proposal-20110407-1d683.html>

But if we are to consider an approach to taxation which does reach beyond the shortest term, and is to provide the fuel for a healthier and less divided society and environment, then the economy itself needs to draw on, rather than exclude, the whole population. And we the people need to be confident the taxation and regulatory systems we have in place are fair and equitable, and don't accentuate inequality and disadvantage.

That's the bottom line.