Assets for all?

A review of the Australian Government's $77 billion support for asset building

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Brotherhood of St Laurence
Working for an Australia free of poverty

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Introduction

Like income support, support for asset building is a key part of public policy in Australia. Through a combination of grants and other direct funding, together with tax exemptions and concessions, the Australian Government has committed billions to help people build assets, mainly focussed on housing and superannuation. However, without a coordinated national asset-building strategy, there has not been a comprehensive analysis of who is benefiting from these arrangements and who is missing out.

Assets, and the ability to build them, are central to a socially inclusive society. Research shows that savings and asset accumulation contribute to people's wellbeing in a variety of ways. As well as providing security, savings and assets provide a buffer against unexpected periods of financial vulnerability. In addition, wealth has been shown to have a notable effect on happiness and life satisfaction (Headey & Wooden 2005). However assets and wealth are much more unequally distributed than income in Australia. Recent BSL-commissioned research shows that the richest quartile has a household mean net worth almost 20 times that of the poorest quartile (Kelly 2009).

The tax concessions and exemptions available for both housing and superannuation are considerable, approximately $74.4 billion each year, and dwarf direct government outlays for asset building, approximately $2.8 billion annually. Tax concessions are more attractive to, and more applicable to, people on high incomes. An analysis of the $50 billion in tax concessions available for housing shows that the majority of government support for home ownership is going to people on high incomes. Likewise, data available for superannuation shows that the $24 billion in annual tax concessions are disproportionately benefitting people on high incomes (Treasury 2009).

1 Support for housing assets

The federal government provides a variety of supports for both owner-occupied and investment housing, totalling in excess of $54 billion. Direct federal government expenditure includes the First Home Owners Grant, the First Home Owners Boost and the First Home Saver Account. Tax concessions include the exemption of owner-occupied housing from capital gains tax and land tax, discounts on capital gains tax for investment properties and the ability to offset the cost of owning investment properties against other income (negative gearing).

In addition, state governments provide a range of concessions and exemptions (for example, from stamp duty) targeted at specific groups including people on low incomes and those affected by drought and the Victorian bushfires. However, these concessions vary by state and are not available universally. Table 1.1 shows how the $54 billion in assistance for housing is made up.

Table 1.1 Federal government support for housing assets

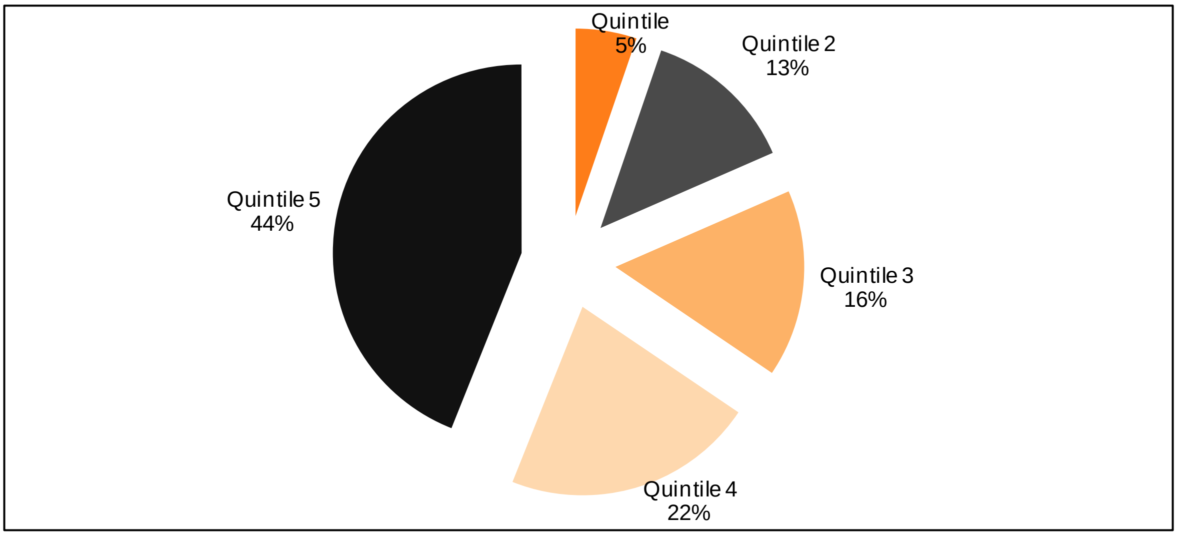
Support measure	$ million
Tax expenditure	
Owner-occupier capital gains tax exemption*	$29,800*
Land tax exemption*	$3,500*
Investment capital gains tax discounts*	$4,200*
Negative gearing*	$1,200*
Other housing tax concessions*	$14,500*
Direct spending	
First Home Owners Grant	$1,000
First Home Owners Boost	$486
First Home Saver Account	$226
Total	**$54,912**

Sources: Yates 2009 (based on 2005–06 ABS Survey of Income and Housing) for items marked *.
Commonwealth of Australia 2008–09 Budget, 2009–10 Budget

The direct payments, or subsidies, for housing are all directed towards first home ownership and are not otherwise targeted. That is, these payments are not means-tested or capped by property value. A recent report in *The Age* noted that since October 2008 over 190 first home owners grants were paid in Victoria for homes worth $1 million or more (Vedelago 2009).

In addition, tax concessions for housing are very unequally distributed. An analysis of these concessions shows that people in the top income quintile are able to access up to just over $15,000 every year. This is up to nine times the tax concessions accessed by people in the lowest income quintile. On capital gains tax exemptions alone, people in the highest income quintile receive an annual benefit of over $8,000, compared with less than $1,200 for people in the lowest income quintile (Yates 2009). Figure 1.2 shows how much each income quintile benefits from housing tax concessions, with quintile 1 being the lowest 20 per cent of income earners and quintile 5 being the highest 20 per cent of income earners.

Figure 1.2 Distribution of housing tax concessions by income quintile



Source: Yates 2009

2 Support for retirement savings

Tax concessions for superannuation currently total over $24 billion annually (Treasury 2009) and are expected to continue growing. Recent research shows that these sizeable concessions are also distributed very unevenly. The Henry tax review noted in its assessment of the retirement income scheme that in 2005–06, 37 per cent of the concessional contributions to superannuation were made by the top five per cent of taxpayers (Australia's Future Tax System Review 2009a).

Table 2.1 shows the tax expenditure and direct spending components that make up the federal government's support for retirement savings.

Table 2.1 Federal government support for retirement savings 2008–09

Support measure	$ millions
Tax expenditure	
Concessional taxation of contributions	$10,150
Concessional taxation of superannuation entity earnings	$12,150
Capital gains tax discount for funds	$580
Deduction and concessional taxation of certain personal contributions	$1,350
Spouse contribution offset	$8
Measures for low income earners	$390
Direct spending	
Superannuation co-contribution	$1,100
Total	**$25,728**

Source: Treasury 2008; Australia's Future Tax System Review 2008a

By contrast, the superannuation co-contribution is the government's direct expenditure for people on low incomes and is currently providing an average of $785 per person. However, the government estimates that only around 20 per cent of people who are eligible for the co-contribution are actually claiming it, which makes the appropriateness of the scheme questionable. In addition, voluntary contributions are made from after-tax income, making the government's co-contribution in effect partly a tax-refund. For people who earn less than $6,000 there is limited benefit because they pay no tax on their income but their superannuation contributions are taxed at 15%.

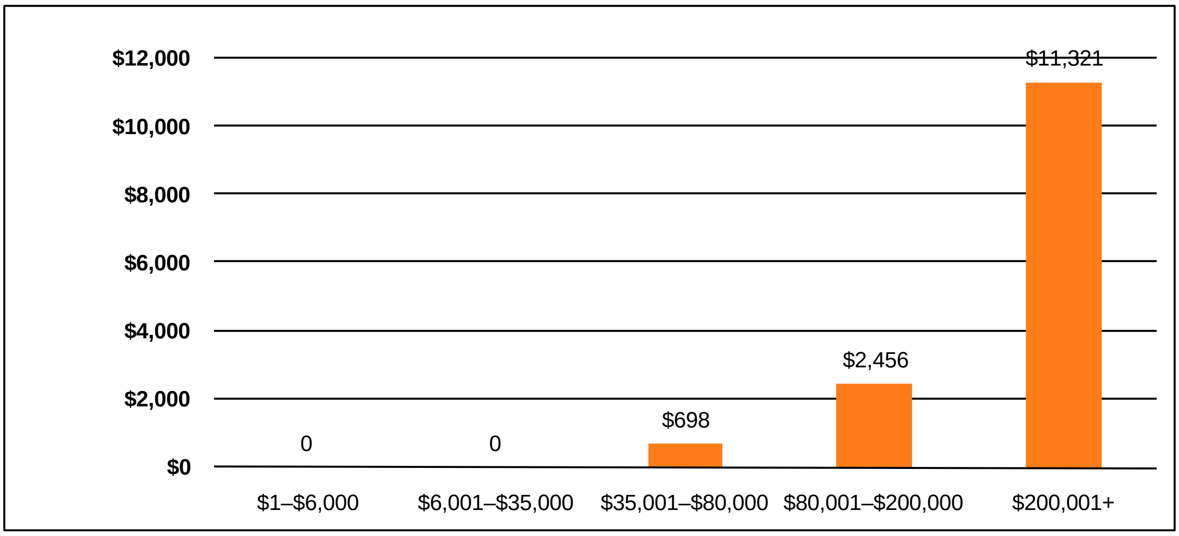
Compounding the inequitable distribution across employed taxpayers is the fact that many people who earn too little, or are not in paid employment, are unable to access any support to build their retirement savings. In particular, people who earn less than $450 per month, are unemployed, are at home caring for young children, or not able to fully participate in the labour force, do not have any superannuation contributions made for them by employers. Women make up the majority of all these groups and on average end up with less than half the average retirement payout of men (ASFA 2009).

As a universal measure, the flat 15% tax on personal contributions to superannuation does not benefit people on low incomes, though it is extremely beneficial to high income earners. At current tax rates, people need to earn more than $35,000 to receive any tax benefit from contributions to superannuation. In contrast, employees earning over $200,000 are receiving over $11,000 in tax concessions each year for their compulsory contributions to their superannuation. While the annual amount that people can contribute to superannuation with a tax concession is now limited to $50,000 for the over 50s and $25,000 for the under 50s, this is far more than most people can afford to lock away each year and means that tax concessions are largely being accessed by the highest income earners.

These inequities in the superannuation system have been further compounded by the substantial changes made in 2007. Among other changes, withdrawals from superannuation became tax-free for the over 55s. This change has enabled the over 55s to use superannuation as a tax minimisation scheme and lower their tax rate to 15%, regardless of how much they earn.

Figure 2.2 shows the distribution of the superannuation tax concessions by income bracket.

Figure 2.2 Superannuation tax concessions by income 2008–09



Data source: Australian Tax Office in Spies-Butcher & Stebbing 2009

3 Case study

Existing support for asset building is more valuable to, and accessible by, high income earners with existing housing properties. This is illustrated by the following hypothetical examples (see Table 3.1). Jane's case reflects the best possible access to government support for a person in her income bracket who does not own a home. In contrast, Matthew's case reflects the bare minimum of support that a person in his income bracket and situation can access, and amounts to ten times the support Jane can claim.

Case one is Jane, a single mother who is employed part-time, earning $30,000 and saving for her first home. Jane opened a First Home Savers Account and managed to save $5,000 in the last financial year to qualify for the maximum government contribution of $850. She was also able to put an extra $1,000 last year into superannuation and received the government co-contribution. The benefits Jane receives from the federal government's asset-building policies total $1,850.

Case two is Matthew, a married father who is employed full-time and earning $160,000. Matthew owns his own home and an investment property. He is making only the compulsory contributions to superannuation. The benefits Matthew receives from the federal government's asset-building policies total $18,784.

Table 3.1 Housing and superannuation assistance: who gets what?

Concession or benefit	Jane $value per year	Matthew $value per year
Owner-occupier capital gains tax exemption		$8,372
Land tax exemption		$1,456
Investment capital gains tax discounts		$1,560
Negative gearing		$3,796
First Home Saver Account	$850	
Concessional taxation of super contributions		$3,600
Super co-contribution	$1,000	
Total	**$1,850**	**$18,784**

Note: Apart from land tax (a state responsibility), these are federal government concessions.
Data source: Yates 2009

4 Tax concessions

The federal government uses both direct expenditure and tax concessions to deliver assistance and meet policy objectives. Tax concessions are significant: in 2007–08, they amounted to over $73 billion, equivalent to 7.1% of GDP (Australia's Future Tax System Review 2008a, p.10). Tax concessions work by providing an exemption, deduction, offset or deferral for a given activity. As these concessions are applied to a person's taxable income, they are far more valuable to people in higher tax brackets. For a person in the highest tax bracket, a tax concession is worth up to 46.5 cents per dollar of income, whereas for a person in the lowest tax bracket tax concessions can be worth nothing. Even on a modest income of around $30,000, tax concessions are only worth up to 16.5 cents per dollar of income.

Compounding this gross disparity in actual value to an individual are both the administrative burden of claiming concessions and the technical barrier of knowing about tax concessions in the first place. For people able to employ professionals to oversee their tax affairs, neither issue is substantial. By contrast, for people on low incomes both issues are significant. People on low incomes are not always required to submit a tax return, and as document literacy among this group is low (ABS 2006, p.12), having to complete a tax return to claim a specific tax concession may be an insurmountable hurdle. While the ATO does provide separate forms to enable people to claim some refunds when they are not required to lodge a tax return, this does not apply to all tax concessions and does not overcome document illiteracy or general lack of knowledge about what tax concessions exist or might apply. Further, analysis of a recent community survey demonstrates that those with lower household incomes are significantly more likely to be among those who are required to but do not lodge a tax return, meaning that they are less likely to claim tax concessions[1] (Inspector-General of Taxation 2009).

[1] Forty per cent of those who were required to lodge a tax return but did not do so had an annual household income below $40,000.

5 Asset building for people on low incomes

The building of savings is not only of individual benefit, but of social benefit. Indeed, assets, and the ability to build them, can provide resilience relevant to each of the six priorities for social inclusion identified by the federal government[2]. This is because access to savings and assets can help people to be active in the mainstream economy, enhancing their interaction with service providers such as banks.

However, as demonstrated above, the $77 billion in assistance for asset building which the federal government currently provides each year is in large part going to those who do not need it. This means that programs and policies are not actively encouraging people on low incomes to save and build assets. However, there is strong evidence that government-sponsored asset-building initiatives can encourage people on low incomes to save, and that for these people, tax incentives alone are not the most effective policy instrument.

At best, people on low incomes keep savings in bank accounts and are liable for tax at their marginal tax rate (which is often higher than the rate for tax-preferred savings vehicles). Anecdotal evidence suggests that people on low incomes also use a variety of informal, and at times high-risk, options to store their savings, including keeping money at home; using a TAB account; overpayment on agreed utility plan; paying extra tax and getting a tax refund; and informal savings and loans circles (which have no regulatory protections). A recent UK analysis of the previous savings patterns of participants in the Savings Gateway scheme found that around 38 per cent of low-income families were only saving informally (Kempson & Finney 2009, p.18) and the picture in Australia is expected to be similar.

There are also disincentives to save embedded in the social security system. For example, people applying for Newstart Allowance, Youth Allowance, Sickness Allowance and Austudy who have savings above a threshold amount must generally serve a waiting period of up to 13 weeks before qualifying for the payment. This may discourage some people from developing savings which might support themselves.

People on low incomes need access to flexible asset-building programs which are available throughout their lives and which enable the purchase of a range of assets. Programs and policies should support and encourage a savings habit and increase financial knowledge and capability. The focus of mid-life asset building should be on establishing a savings buffer, improving education attainment and gaining home ownership. Such measures will also increase national savings, as people on lower and middle incomes are more likely to take up incentives to save, not just switch existing savings into tax-preferred options.

[2] The government's six social inclusion priority areas are:

- Addressing the incidence and needs of jobless families with children
- Delivering effective support to children at greatest risk of long term disadvantage
- Focusing on particular locations, neighbourhoods and communities to ensure programs and services are getting to the right places
- Addressing the incidence of homelessness
- Employment for people living with a disability or mental illness
- Closing the gap for Indigenous Australians (Australian Government 2009)

Saver Plus

In Australia, Saver Plus is a proven successful asset-building program for people on low incomes, demonstrating that well-structured and targeted programs can help people on low incomes develop the savings habit and acquire assets for their future wellbeing. Saver Plus is a matched savings and financial education program developed by the Brotherhood in partnership with ANZ. Each dollar a participant saves is matched (up to a cap) with another dollar. Matched savings are spent on costs related to children's schooling or participants' vocational training. Saver Plus participants also attend financial education workshops as a condition of receiving their matched funds. From its inception, Saver Plus has been evaluated by RMIT University. The most recent evaluation involved 2,802 people who were participants between April 2006 and June 2009. That study found:

- Of the people who commenced the program, 82 per cent completed and received matched funds.
- 85 per cent of participants who met or exceeded their savings goal decreased their level of debt during the program.
- Overall, nearly all the participants (99.1%) reported a positive experience with the program (Russell, Wall, Doan & Brooks 2009).

Other research has demonstrated that more than 70 per cent of participants who completed the program have continued to save at the same rate or more, 24 to 36 months after finishing the program (Russell, Harlim & Brooks 2008).

The federal government has recently provided $13.5 million to support the expansion of Saver Plus over two years (Rudd & Macklin 2009).

International asset-building initiatives

Many developed countries are well ahead of Australia in recognising the importance of asset building for people on low incomes, and so have well-established successful programs. These programs typically use a variety of incentives through the tax and transfer system, including tax concessions and government matching (or co-contribution).

In the UK, Savings Gateway is a government-supported cash saving scheme for working-age people on lower incomes. Savings Gateway accounts are tax-free and the government matches each £1 saved with 50 pence after two years of saving. The UK has also introduced Child Trust Fund accounts which are opened for every child after birth with an initial government deposit. The government makes further, means-tested contributions at ages five, eleven and sixteen. Tax incentives also encourage families and friends to make additional contributions.

In the US, Individual Development Accounts (IDAs) have been used since the early 1990s to provide matched savings for various purposes, including first home purchase, post-secondary education, or starting or expanding a small business. The Obama administration recently announced funding for the expansion of several IDA programs and the establishment of new fully-funded ones (CFED 2009). An evaluation of one of the largest IDA programs found that the medium-term benefits could be considerable: after 48 months, there were significant increases in home ownership and participation in education (Mills et al. 2004).

Singapore's Children Development Accounts (CDAs) provides initial government deposits of S$4,000 each for the first and second child and $6,000 each for the third and fourth child. The government then matches parents' deposits annually until children turn six. This matching is capped at $6,000 each for the first and second child, $12,000 each for the third and fourth, and $18,000 for each subsequent child. The savings can be used for childcare, kindergarten and school fees, and also for medical insurance and medical expenses.

Canada has introduced several asset-building programs which feature both tax incentives and means-tested government co-contributions. The Tax Free Savings Account in particular acknowledges the importance of both mid-life asset building and the security provided by a savings buffer.

Criticisms of asset-based welfare policies

Internationally, there has been some criticism of the approach taken by governments to asset-based welfare (for example, see Watson 2009; Prabhakar 2009; Finlayson 2009). Critiques are largely based on implementation of specific policies and a failure to sufficiently consider equity and redistribution as an objective of policies.

For example, Watson (2009) has argued that the UK New Labour government's asset-based system of welfare has an underlying philosophical framework related not so much to justice as to duty. That is, it is each individual's responsibility to plan for their future consumption, reducing reliance on the state to provide welfare. This asset-based approach, Watson argues, is not so much about equality of outcome as about equality of opportunity. Further, Watson suggests that the goal of asset-based policy is really about 'financialising' individuals: rather than having a right to state support, individuals are to be savers and investors so as to secure their long-term welfare.

Finlayson (2009) makes a similar argument in relation to the UK's Child Trust Fund scheme. His analysis of its marketing indicates that the program's primary objective is not really redistribution. Indeed, being universal rather than targeted at low income earners, the Child Trust Fund could potentially increase inequality, because families with greater capacity to voluntarily contribute may end up with greater government contributions than those with less.

Finlayson also discusses the policy as 'financialisation'. He suggests that the focus of the Child Trust Fund is financial literacy, to ensure that people manage their money well, do not get into debt and become keen savers and even risk-takers. Such a goal presupposes that individual financial illiteracy and irresponsibility are the major causes of financial problems and indebtedness. This suggestion, however, ignores the fact that it is government policies such as the requirement to fund education through loans, as well as pressure to take out higher mortgages due to inflated house prices and the increased availability of consumer credit, which result in financial problems and indebtedness, rather than financial illiteracy (Montgomorie 2008). Indeed, the requirement to become financially literate in such an environment has been shown to induce overconfidence in some instances, and result in poorer decision-making and worse outcomes (Willis 2009).

Asset-based social policy promoting equity

Asset-based social policy does not have to conform to a policy of 'financialisation' as described above. It can prioritise equity through redistribution while maintaining an ability to improve behaviour and change outlook and attitudes.

The famous asset-based welfare proponent, US academic Michael Sherraden, has argued convincingly that:

> income only maintains consumption, but assets change the way people think and interact with the world. With assets, people begin to think in long term and pursue long term goals. In other words, while income feeds people's stomachs, assets change their heads (Sherraden 1991).

Implicit in this statement is the belief that the focus on asset-building policies should be those with the least assets.

As this paper has demonstrated, the focus of Australia's current asset-building policies is not on those with the least assets, but on those with the most. Tax concessions on housing and superannuation in particular encourage wealthier households to further accumulate assets, while doing little for poorer families. Significant reform of the tax and transfer system is required to remedy this, so that policies that encourage asset building benefit those that need them the most.

6 Recommendations

1 Reform taxation concessions on superannuation for high income earners

The Government needs to reform the grossly inequitable superannuation system, which provides tax concessions worth over $20 billion to the wealthy annually. This would include amending the flat 15% tax on personal contributions, which is extremely beneficial to high income earners, but does not benefit people on low incomes.

2 Implement an expanded, targeted superannuation co-contribution scheme for low income earners

The government should fund a new government superannuation co-contribution scheme, matching compulsory and voluntary contributions up to an annual ceiling, in line with the approach long advocated by the Australian Council of Social Service (Disney 2007). This would mean that everyone receives some form of superannuation co-contribution, and those on low incomes would receive a much larger contribution as a proportion of their income.

3 Allow a proportion of superannuation savings to be available for mid-life purchases

Many people on low incomes are reluctant to lock away voluntary savings into superannuation funds until retirement, because they need the money sooner to buy a house or to invest in education. Consideration should be given to making a proportion of superannuation available before retirement, for important mid-life needs such as buying or retaining a home, as is already the case in Canada under the country's Registered Retirement Savings Plans. Lifelong savings could be further encouraged through a government-funded matched savings account to build a nest egg for more immediate needs such as car repairs or visits to the dentist. The government would encourage people to save by paying a direct tax-free co-contribution into their account, up to a fixed limit, to be paid on reaching their savings goal. Initiatives such as the First Home Saver Account and the Education Tax Refund could be rolled into this more flexible system.

4 Provide universal access to Saver Plus for eligible low income earners

Saver Plus is a proven asset-building program for people on low incomes. The program has successfully operated for over five years, and has influenced the savings behaviour of participants and built their financial capability. Expanding Saver Plus would enable many more Australians on low incomes to build a savings buffer, increase their financial literacy and capability, and invest in education. The Australian Government’s recent announcement of $13.5 million funding over two years to expand Saver Plus is a very welcome first step, but a longer term investment is needed to make the scheme universally available to eligible low income earners.

5 Allow quarantining of legitimate savings from the liquid assets test

Under social security law, people applying for Newstart Allowance, Youth Allowance, Sickness Allowance and Austudy who have liquid assets above a threshold amount must generally serve a waiting period of up to 13 weeks before qualifying for the payment. Earlier in 2009, the government relaxed the liquid assets test to $5,500 for singles without dependants or $11,000 for others for a two-year period from 1 April 2009 to 31 March 2011. While this is a welcome short-term measure, the liquid assets test remains a disincentive to saving and the threshold should be doubled so that savings are quarantined from this test.

6 Develop and implement a National Financial Inclusion Strategy

The government should be ambitious in developing a broad National Financial Inclusion Strategy that learns from the many successful international asset-building programs for people on low incomes.

A National Financial Inclusion Strategy can ensure that:

- Australians on low incomes have the opportunity to save and build assets
- new and innovative opportunities to address financial exclusion are developed and implemented nationally
- Australians on low incomes have effective access to financial services, including affordable credit, banking products and insurance
- the financial services sector serves the needs of the whole community, including those regarded as ‘less profitable’ than others
- vulnerable Australians have the opportunity to improve their financial capability—that is, are able to manage their money, make better financial decisions, exercise their legal rights, obtain their full financial entitlements and access support.

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