Brotherhood of St Laurence
Working for an Australia free of poverty

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The Case for Change: A Snapshot Analysis of the Australian Tax System

Prepared by John Freebairn and Rosanna Scutella for the Brotherhood of St Laurence

There is unanimous agreement that Australia needs tax reform. The recent 2020 Summit called for it and Prime Minister Kevin Rudd said it should be ‘root and branch’. In the Brotherhood of St Laurence’s view, the tax system must be reformed so that it satisfies principles of both equity and efficiency. If the government is serious about social inclusion and addressing disadvantage then it must undertake tax reform.

Therefore, the Brotherhood of St Laurence is urging the new Australian federal government to commit to a review of the Australian tax system, including federal, state and local taxes. The government needs to examine options to create a fairer, simpler and a more efficient system, including its interaction with the social security system, that maximises economic and social participation. The Brotherhood believes a package which eliminates distortionary and unfair tax deductions and concessions to fund lower tax rates in a simpler, flatter tax structure potentially is both more equitable and more efficient.

This report provides a snapshot analysis of key areas of the tax system that are the most unfair and require reform. It is not a comprehensive review of the tax system, nor does it list all of the inequities in the tax system. The report presents a number of recommendations and a range of case studies of various family types highlighting the inequities of the system. Note that in this report the focus is on federal taxes. The Brotherhood is however committed to reform of the entire Australian tax system, including state and local taxes, and we urge all levels of Australian government to commit to an independent review of the complete system over the longer term.

The principles of reform

The principles of tax reform should include:

- equity
- transparency
- efficiency
- flexibility.

Generally when we think of fairness in the tax system we are concerned with the principle of vertical equity; i.e. that people who are better off should be taxed a larger portion of their income. However it is also important that people with the same capacity to pay are taxed at the same rate in aggregate, i.e. that horizontal equity is achieved. This seems like a relatively simple concept but it can be quite difficult in practice, particularly in today’s complex economy with different household structures in terms of numbers of dependants and the mixes of work and income earned, and with competing priorities and interests of government. Transparency is also important.

A good tax system is also efficient. For efficiency it is desirable to minimise distorting people's behaviour – unless governments are trying to correct for externalities (and thus accounting for differences in private and social costs/benefits). Lower compliance and administrative costs mean scarce resources are released for more productive uses. Some flexibility may be desirable to change tax rates as economic circumstances change, particularly for clear and marked swings over the economic cycle. The system in place should be flexible enough to allow this to happen without too much effort or cost.

The design of Australia's current tax system, with its numerous exemptions, deductions and concessions and varied treatment of income depending on its source does not satisfy the above basic principles. Therefore people can exploit the system and avoid paying their fair share of tax, and inefficiencies created by the system mean that there is a large cost associated with the way governments collect their tax revenue. By removing many special deductions and exemptions, many of which are documented and costed in the annual Tax Expenditure Statement prepared by the Australian Treasury[1], the base could be expanded to collect in excess of another $10 billion a year in foregone revenue, and up to another $30 billion a year. While these deductions and exemptions are claimed by many taxpayers, they tend to be of more value to higher income earners, so that an aggregate revenue-neutral and roughly vertical equity neutral reform package would offer larger tax rate reductions at higher income levels. The "sticks" of lost deductions and exemptions are to be matched against the "carrots" of lower rates and the net benefits of a positive sum game associated with greater efficiency and a simpler tax system.

Seven key areas for action are outlined below.

1. Capital gains

<u>The current state of play</u>

Income earned from capital gains for assets (other than their own home) held by individuals or trusts for over 12 months is taxed at a concessional rate – with only 50 per cent of the capital gain subject to tax. This amounts to an estimated revenue cost of over $7.4 billion in 2007-08.[2] Debt interest incurred in the funding of investments that earn capital gains is tax deductible (negative gearing). Small businesses receive a number of additional capital gains tax concessions for no good efficiency reason. Special concessions not available to others apply if the assets are used for retirement, or have been held for more than 15 years, or if the assets are sold as part of an active business decision. In total, these small business capital gains tax concessions are estimated to have a tax revenue cost of over $800 million in 2007-08.[3]

<u>Is it fair?</u>

No. Capital gains are mainly enjoyed by higher income individuals, as shown in ATO data on the distribution of declared realised capital gains by level of taxable income.[4] The concessions also involve an important element of horizontal inequity (i.e. individuals or households using other savings and investment options receive less favourable tax treatment).

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[1] Australian Treasury 2007, Tax Expenditure Statement 2007, Canberra.
[2] Op cit
[3] Op cit
[4] ATO 2008, Taxation Statistics, 2005-06, Canberra.

Is it efficient?

No. The combination of the CGT discount and negative gearing means that investors are able to arbitrage early period deduction of the expenses against concessional taxation of the capital gains (both the half rate and the deferral benefits). This encourages speculators to enter the property market and as a result there is overinvestment in residential property, and underinvestment in other, socially more productive, investments in plant and equipment, human capital and research and development.

A fairer alternative

Remove the concessional half tax rate on capital gains. This will reduce a large proportion of the current arbitrage opportunities, and associated efficiency losses.

Some commentators have proposed that the unrestricted deductibility of debt interest expenses be removed, or at least restricted. Debt interest represents a cost of doing business, and under a comprehensive income tax system the debt interest is a deduction for the investor and it is taxed as income of the lender who provides the funds. The real problem is the interaction of concessional taxation of capital gains (including the 50% rate and deferral to realisation) relative to the deductibility of debt interest (at 100% and on accrual). To remove the CGT rate concession goes a long way, but not all the way, to closing down the arbitrage game. Disallowing debt interest as a deductible business expense seems to be going too far. A half-way option is to quarantine negative debt interest deductions to the income earned on investments it funds, with carry-forward provisions, which was attempted by the Hawke-Keating government in 1986. This proved, however, to be extremely unpopular and was soon removed.

2. Investment in superannuation

The current state of play

Most superannuation from July 2007, including that funded by the compulsory 9 per cent levy on wages and salaries attracts a flat rate of tax of 15 per cent on funds at entry and 15 per cent on the annual income earned[5]. It is important to note that these contributions are from pre-tax income. In aggregate, Treasury estimates a tax expenditure of over $20 billion for 2007-08.[6]

Is it fair?

No. At best this is a system of flat rate taxation. Further, many of those on higher incomes contribute more than the compulsory levy to superannuation, and certainly much more relative to those on lower incomes. Together, these two factors mean that the superannuation tax concessions are regressive in their incidence relative to the benchmark of a progressive income tax.

Is it efficient?

Unclear. Arguably the pattern of investment by the super funds will not be very different from where savers might otherwise have placed their savings, especially in the context of a general equilibrium model of saving and investment. Thus, the super tax concessions probably do not have much net effect on the composition of investment. Because of potentially offsetting income and substitution effects, the super tax concessions are likely

[5] But note that the capital gains component is taxed at a 10 per cent rate.

[6] Australian Treasury 2007, Tax Expenditure Statement 2007, Canberra.

have a limited effect on aggregate domestic saving, and because Australia is a small net capital borrower they will have little effect on aggregate investment. If the foregoing is true, the super tax concessions are mainly an unfair redistribution in favour of those with a tax rate above 15%, and the more so the higher the income.

A fairer alternative

To give superannuation a consumption base type treatment. Such a reform would place the taxation of superannuation on a comparable footing to the taxation of owner-occupied housing, and clearly these are the two main avenues for spreading income over the life course to fund the retirement phase. Two broad consumption base tax options are available, namely the TEE system (tax on entry and no further tax) and the EET system (tax only on exit), and for both options apply the progressive personal income tax rate schedule. Strict comparability with owner occupied housing would use the TEE system, involve taxing funds at the personal rate on entry, with no further tax on income earned or on funds withdrawn after an appropriate preservation age. Alternatively, superannuation could be tax-free on entry and on fund earnings, with taxation of withdrawals at the progressive personal tax rate (the EET system). This option has advantages that it penalises lump sum withdrawals and it promotes the taking of annuities, as is more consistent with superannuation being a genuine instrument for the provision of income over the full retirement phase. Also, the EET system moves tax collection forward to the future when (as argued in the various federal and state governments' Intergenerational Reports) the demands on governments are expected to increase because of demographic changes, and it provides efficiency gains as a form of tax smoothing over time. Either of the TEE or EET options would be more equitable than the current flat rate tax treatment of superannuation.

3. Making work pay: withdrawal of income support, tax offsets and family benefits

The current state of play

The apparent simplicity of the personal income tax rate schedule hides the complications of a number of tax offsets and rebates. These include the phasing-in of the Medicare levy, the phasing out of the Low Income Tax Offset (LITO) and the Senior Australians Tax Offset (SATO), and the interactions of the tax and benefit systems and their effects on workforce participation and hours of work decisions.[7] A significant proportion of the population on income support payments face EMTRs of over 50 per cent due to the interaction of the tax system (including the phasing in of the Medicare levy and the withdrawal of LITO) with the withdrawal of social security benefits.[8] An added level of complexity is apparent with the differential indexation arrangements of pensions and allowances, with pensions such as the Disability Support Pension and Parenting Payment Single, indexed to average weekly

[7] The tax-free threshold is $6,000. The Medicare levy, of 1.5% of taxable income, starts phasing in at 10 cents in the dollar at $16,740 for singles without dependants and higher income thresholds for many other family types. The LITO allows individuals on low-incomes (less than $30,000) to offset up to $750 of their tax liability annually. This effectively increases the tax-free threshold for low-income individuals to $11,000. The offset is withdrawn at 4 cents in the dollar for incomes above $30,000. The SATO uses the same principle and taken together with the LITO means that eligible seniors have a tax-free threshold of $25,867 for singles and $21,680 for each member of a couple.
Newstart Allowance is withdrawn at 50 cents in the dollar for incomes greater than $31 a week and 60 cents in the dollar for incomes greater than $125 a week. Parenting Payment Single is withdrawn at 40 cents in the dollar for incomes greater than $156.60 (+ $24.60 for each second and subsequent child).

[8] Harding, A 2008, 'Effective Tax Rates in Australia Today: An Overview and Some Issues', Presentation to the CEDA 2008 Tax Policy Directions Forum, Canberra, 12 March 2008.

earnings (AWE), while allowances such as Newstart Allowance are indexed to the consumer price index (CPI). As wages typically grow faster than prices, rates of payment diverge over time. This is an even greater disincentive for those on the higher pension payments to re-enter the workforce for fear of losing their eligibility for their pension and having to claim the lower paid allowance if things don't work out in their job.

In addition, means-tested assistance is available to families with children through Family Tax Benefit A (FTB-A).[9] This payment is a per child payment with around 70 per cent of families with children eligible for a benefit in some form. Single parent and single income earner partnered families are also able to claim Family Tax Benefit B (FTB-B).[10] The baby bonus is a lump sum universal payment (currently $4258, to be increased to $5000 on 1 July 2008) provided to families at the birth of each child. A complex array of benefits are available for child care through the Child Care Benefit, the Child Care Tax Rebate and JET Child Care Fee Assistance and other tax deductions.

In addition to their benefit withdrawal, individuals and families moving from income support into employment face the prospect of no longer being eligible for their Pensioner Concession Card or Health Care Card, which offer support with the cost of medicines and a range of concessions (varying across states) including utilities, health, transport and educational concessions.

Individuals and families in public housing also face a dollar-for-dollar increase in their rent until their rent reaches market rates. The combined effects of very high effective marginal tax rates with the withdrawal of the Health Care Card and other concessions can act as a powerful disincentive for a jobseeker moving from welfare to work. This is particularly true where a job may be short-term or where a person has been out of work for some time and is not sure whether their foray into the labour market will result in long term employment.

The existing system means that people can potentially be worse off if they accept employment that does not work out. In this scenario accepting a job can seem to be a risk that is just not worth taking.

A particular oddity is the generosity of the senior Australians' tax offset (SATO) relative to the low income tax offset (LITO) available to other Australians.

Is it fair?

Some elements are, but others aren't. FTB-A seems to be an effective instrument at alleviating both family and child poverty.[11] The payment provides quite adequate financial support for most families on low incomes. Its availability to families on middle incomes ensures its popularity making it less vulnerable to political cycles and ensuring little or no stigma associated with the payment. There are unfair aspects of the other payments. All families receive the baby bonus when they have a child, whereas women on higher incomes are more likely to also have access to paid maternity leave than those on lower incomes.[12]

[9] The maximum rate of Family Tax Benefit Part A is available to families with incomes below $41,318 and then is withdrawn at 20 cents in the dollar. The base rate of assistance is available to families with incomes below $91,542 a year (plus $3650 for each subsequent eligible child) and then is withdrawn at 30 cents in the dollar.

[10] Secondary earners can get $4380.00 each year before it affects their Family Tax Benefit Part B. Payments are then reduced by 20 cents for each dollar of income earned over $4380.00.

[11] Whiteford, Peter and Adema, Willem 2007, 'What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?', OECD, March, available at http://www.oecd.org/dataoecd/30/44/38227981.pdf

[12] ABS 2007, Australian Social Trends, 2007, Catalogue 4102.0, Canberra.

With SATO being more generous than LITO, the aged are favoured relative to younger Australians.

Is it efficient?

The FTB-B income test on secondary earners discourages mothers from re-entering the workforce. There is ambiguous evidence on the effect of the baby bonus on fertility decisions; and a better structured maternity/parental leave system would have a larger impact on female labour force participation. There is no evidence that the labour supply or savings decisions of the low income seniors are more elastic than those for the young to warrant such tax rate differences between the SATO and LITO on efficiency grounds. High EMTRs for some income support recipients, particularly in combination with the loss of other benefits such as health care cards, are likely to have an adverse effect on workforce participation.

A fairer alternative

In the long term a review of the entire income support and family assistance system is needed, including a review of child care assistance, recognising the priority given to preventing child and family poverty. If we accept that children are a public good and that families should be supported with the costs of raising children, then this could include considering replacing FTB Parts A and B with a small universal child related payment and then combining this with a more targeted top up payment similar in structure to FTB-A to make sure that the most in need are getting the most assistance. This could also involve replacing the current universal baby bonus with a well designed paid maternity/parental leave system, which government contributes to ensure that low-income families are protected. Over the longer term we would also recommend abolishing the Dependent Spouse Rebate.[13]

In the short term FTB-B and the baby bonus should at least be means-tested so that they better target families on low-incomes.

To further encourage income support recipients to re-enter the workforce, we suggest that the principle of the working credit be expanded to ensure that those on income support for long periods who move into employment can keep a significant proportion of their payment for a period (say 6 months) post-employment. We also suggest that income support recipients entering employment be able to retain their health care card for 12 months after job entry and that for public housing tenants there be a rent moratorium for 6 months after job entry. This would encourage disadvantaged jobseekers to try out employment without fearing that if things don't work out that they will be worse off.

4. Fringe benefits and work-related deductions

The current state of play

There are a number of special tax exemptions and deductions for remuneration in the form of fringe benefits and lump sums (other than superannuation which we consider elsewhere). In addition a range of work-related expenses are tax deductable.

[13] The Dependent Spouse Rebate operates under the same principle as FTB-B in that it is only means-tested on a secondary earner's income, but applies for families without children. Primary earners can receive a tax rebate of up to $2,100 if their partner's income is less than $282. The rebate is then withdrawn by $1 for every $4 of income above this.

The concessional taxation of labour remuneration taken as fringe benefits rather than as wages is estimated to cost over $3 billion in tax revenue in 2007-08, with the largest item associated with motor vehicles ($1.5 billion).[14]

Some lump sum payments to employees (including termination payments other than superannuation, and payments for unused recreation and long service leave accrued before 1993) also receive concessional treatment. In aggregate, these concessions are estimated to have a tax revenue cost of over $1.5 billion in 2007-08.[15]

Individual taxpayers can claim as a deduction against taxable income some, but far from all, work-related expenses, with the list of allowable deductible items varying by industry and occupation. There is a confusing array of partial subsidies and tax deductions for child care while working (and also during non-work periods).

Is it fair?

No. It is likely that fringe benefit tax concessions on motor vehicles are skewed in favour of middle and high income earners. Also, they involve an element of horizontal inequity between people who take their remuneration as wages and those who take some of their remuneration as concessionally taxed motor vehicles. While there are some people earning low incomes who receive lump sum payments, most lump sum payments are received by people at the end of their career and on higher income levels. Data from the ATO, for example, shows that almost one half of the concessions on unused accumulated leave prior to 1978 go to the three per cent of taxpayers earning more than $100,000 a year. Taxpayers at all income levels claim deductions for work-related expenses, but the distribution of claims is skewed towards those on higher incomes.[16]

Is this efficient?

No. The FBT concessional treatment, while representing a dollar for dollar labour cost to the employers, can distort employee expenditure decisions as well as reducing the income tax base. It is likely that the consumption patterns of many employees of the not-for-profit sector have been distorted by the provision of an important share of their remuneration as fringe benefits rather than as wages. There is no efficiency argument to favour lump sum payments over wages and salaries.

A fairer alternative

Abolish FBT concessions and deductions and remove the current ad hoc set of allowed deductions for work-related expenses and use the revenue saved to lower overall marginal tax rates.[17] This would simplify the tax system and reduce compliance costs for a large number of wage and salary earners. In 2005-06, 45 per cent of individual taxpayers claimed a total of $1.3 billion in payments for professional services to manage their tax affairs.[18]

[14] Australian Treasury 2007, Tax Expenditure Statement 2007, Canberra.

[15] Op cit

[16] ATO 2008, Taxation Statistics, 2005-06, Canberra.

[17] FBT concessions are utilised by the not-for-profit sector to offer competitive salary packaging to attract and retain staff. If these were to be removed they would have to be replaced with other forms of compensation so that the sector could afford to offer higher remuneration to staff and remain competitive.

[18] Australian Treasury 2007, Tax Expenditure Statement 2007, Canberra.

5. Indexing the tax rate schedule: addressing fiscal drag

The current state of play

Australian personal income tax thresholds are not indexed. As a result, as incomes and standards of living rise over time, a larger share of individual incomes is paid in tax even though their real pre-tax purchasing power may not have changed. This phenomena is referred to as fiscal drag, as higher nominal incomes result in higher average tax rates.[19]

Is it fair?

No. Failing to account for fiscal drag by not indexing the thresholds, and especially the lower income thresholds, affects low-income groups more in relative terms than those with higher incomes.[20]

Is it efficient?

No. In general, taxes are said to invoke a degree of deadweight cost. Increasing the average tax share when people's real financial position has not changed exacerbates this inefficiency.

A fairer alternative

Index the income thresholds at which the marginal income tax rates change by changes in nominal income (preferably by changes in AWE rather than changes in the CPI).

6. Tax treatment of owner occupied housing

The current state of play

Owner-occupied housing is exempt from capital gains tax and imputed rents are not taxed.

Is it fair?

No. Headey, Marks and Wooden present data from the HILDA survey for 2002 showing that the distribution of household wealth in the form of owner occupied homes is more unequal than the distribution of income.[21] Thus, wealthier individuals or households benefit from the favourable tax treatment of both owner occupied and other forms of housing.

Is it efficient?

No. The favourable tax treatment of owner occupied housing distorts behaviour. People invest more in housing, particularly in their own home, than other investment alternatives that may have a higher social return to Australians as an economy and society.

A fairer alternative

The preferred policy requires a more neutral tax system of capital gains tax on different household investment and saving choice options. Bringing capital gains on owner occupied homes, at least above a minimum threshold, into the tax net would be an improvement. Then,

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[19] Fiscal drag is more than taxpayers being forced onto higher marginal tax rate brackets, although this is an added problem for some tax payers. Because of the progressive tax rate schedule, including a tax-free threshold, as nominal income rises the average tax rate on individuals rise and the share of national income in taxation rises

[20] Buddelmeyer, H., Dawkins, P., Freebairn, J. and Kalb, G. 2004 Bracket Creep, Effective Marginal Tax Rates and Alternative Tax Packages, web report found online at http://www.melbourneinstitute.com/publications/reports/WebReport.pdf

[21] Headey, B, Marks, G and Wooden, M 2005, 'The Structure and Distribution of Household Wealth in Australia', Australian Economic Review, 38(2), pp.159-175.

taxing some (or all) of the capital gains earned on owner occupied housing would increase vertical as well as horizontal equity.

7. Removal of Other Special Exemptions and Deductions

(a) Income averaging

The current state of play

A select group of taxpayers, including primary producers, artists and authors, are able to average their income over a five-year period in determining their tax rate. Primary producers also have access to a system of farm management deposit bonds which allow for deferral of tax from relatively high to relatively low income years. These options are not available to other taxpayers with variable incomes. In 2007-08 these two sets of special allowances are estimated to cost tax revenue of $150 million each. [22]

Is it efficient?

As a general proposition, the annual tax accounting period is arbitrary (for example it could be several years or over a working lifetime), and with a progressive tax rate schedule those with more variable incomes on average will pay a higher average tax burden than those with a more stable, and similar average, income. This distorts income choice options against those yielding more variable incomes.

Is it fair?

No. There are many others with variable incomes than those currently benefiting. These include other small businesses, female employees with broken careers, the 30 per cent of the workforce who are part-time employees, and employees with spells of unemployment. Low-skilled and low-paid people are over-represented in the last two categories.

A fairer alternative

Introduce a general income averaging provision. For example, the ATO could determine from income tax returns those whose current year income is below a predetermined share of the average of recent years (say 20 per cent below the average of the previous five years, but clearly the percentage and number of years are policy choices), with the average tax rate adjusted downwards to the average. If this idea is not accepted, the case for retaining the income averaging concessions for the lucky few should be abolished.

(b) Remaining business tax concessions

The current state of play

The 1999 Ralph Committee Review of business taxation proposed a broad comprehensive tax base with no special exemptions and deductions, with the revenue to fund the lower corporate tax rate. While this general theme was accepted, a few special exemptions were retained for no good efficiency reason, just well targeted lobbying. These include accelerated depreciation provisions for forestry, some horticultural crops, some water infrastructure and some transport infrastructure (but with economic depreciation for the vast majority of plant and equipment and building investments), concessional valuation of livestock; and an exemption for the income of off-shore banking. Together, these special exemptions have an estimated revenue cost of around $400 million a year.[23]

[22] Australian Treasury 2007, Tax Expenditure Statement 2007, Canberra.
[23] Op. cit.

Is it efficient?
No. The concessions provide a subsidy for the selected investments relative to the vast range of other business investments in plant and equipment, buildings, new product development and marketing, workforce skills, etc. They also add to complexity, with business collecting one set of records for tax purposes and another for sensible business investment decisions.

Is it fair?
No. Even those concessions targeted at primary producers largely go not to family farms, but to large corporate investors. The deductions are worth more the higher the taxable income.

A fairer alternative
Remove the special concessions, and pool the revenue gains to fund a lower tax rate schedule.

Case studies[24]

The best illustration of the gross inequities in the tax system is in the following case studies.

Case study A below examines two scenarios of a single adult working full-time. In scenario one the person starts on average weekly earnings ($65,000) and then gets a pay rise of $10,000. The effective tax rate on this additional income is 31.5%. In the second scenario a high income earner gets a pay rise of $25,000 – taking them from $150,000 to $175,000 a year. This person can then reduce their tax burden by investing the entire amount into superannuation, paying 15% tax on this additional income.

The comparison becomes even starker when considering the impact of people moving from welfare to work. Case study B shows that a single adult moving from the Newstart Allowance to a part-time job (working 20 hours at $15 an hour) faces an effective tax rate of 63% on their additional earnings. If they return to full-time work at the same hourly rate, their additional earnings are effectively taxed at 57%. They may also lose other benefits such as eligibility for their health care concession card. In case study D, a single parent on Newstart Allowance who returns to work part time at $15 an hour faces an effective tax rate of 59% on their additional income. Returning to work full-time at the same hourly rate has an effective tax rate of 50%.

The final case study E shows the way high-income earners can manipulate the favourable tax treatment of contributions to superannuation to pay very little tax. Wealthy individuals are able to save more and to make large contributions to superannuation and thus minimise their effective tax rates. People on low and middle incomes have much less incentive to invest in superannuation and much less capacity to do so and therefore cannot make as much use of this concession.

[24] Net incomes are calculated using the 2007-08 tax schedule. Similarly payment rates are based on rates at April 27 2008.

Case study A. Single adult working full-time.

1. Getting a pay rise of $10,000 p.a. from a job paying average weekly earnings of $1,275 (close to $65,000 pa), i.e. annual salary of $65,000 to $75,000.
2. Getting a pay rise of $25,000 pa from a $150,000 p.a. job, i.e. annual salary of $150,000 to $175,000.

Scenario	After tax weekly income	Gross weekly earnings	Weekly income lost due to tax paid	Effective tax rate on additional income
1	$1,088.88	$1,438.01	$60.58	31.5%
2	$2,192.79	$3,365.38	$223.56	46.5%

Source: authors' calculations

Case study B. Single adult 21-59 years, no children, in private rental.

1. Not working but actively searching for work so is eligible for Newstart Allowance, maximum amount of Rent Assistance and a Health Care Card.
2. Takes on a part-time job working 20 hours a week at $15 an hour.
3. Takes on a full-time job working 40 hours a week at $15 an hour.

Scenario	After tax weekly income	Gross weekly earnings	Weekly income lost due to benefit withdrawal and income taxes	Effective tax rate on additional income	Eligible for concession card
1	$272.15	$0	$0	0%	Health Care Card
2	$383.27	$300	$188.88	63%	Health Care Card
3	$528.35	$600	$343.80	57%	No*

*If returning to work after being on Newstart Allowance for 12 months or more, can keep Health Care Card for 6 months

Source: authors' calculations

Case study C. Single parent 21-59 years, 2 children (one aged between 5 & 8 years, the other between 5 and 13 years), in private rental.

1. Not working and because youngest child under 8 eligible for Parenting Payment – Single, maximum Rent Assistance and Pensioner Concession Card.
2. Takes on a part-time minimum wage job working 20 hours a week at $15 an hour.
3. Takes on a full-time minimum wage job working 38 hours a week at $15 an hour.

Scenario	After tax weekly income	Gross weekly earnings	Weekly income lost due to benefit withdrawal and income taxes	Effective tax rate on additional income	Eligible for concession card
1	$557.79	$0	$0	0%	Pensioner card
2	$756.68	$300	$60.60	34%	Pensioner card
3	$866.89	$600	$217.57	48%	Pensioner card

Source: authors' calculations

Case study D. Single parent 21-59 years, 2 children (both children aged 8-13 years), in private rental

1. Not working and actively seeking work so eligible for Newstart Allowance
2. Takes on a part-time minimum wage job working 20 hours a week at $15 an hour
3. Takes on a full-time minimum wage job working 38 hours a week at $15 an hour

Scenario	After tax weekly income	Gross weekly earnings	Weekly income lost due to benefit withdrawal and income taxes	Effective tax rate on additional income	Eligible for concession card
1	$520.79	$0	$0	0%	Pensioner card
2	$642.86	$300	$161.30	59%	Pensioner card
3	$821.73	$600	$282.99	50%	Health Care Card*

*Some customers may be eligible to keep their Pensioner Concession Card for a short time after returning to work.
Source: authors' calculations

Case study E. High-income single adult approaching retirement, 55-64 years

1. Owns home outright, invests $80,000 of gross earnings via salary sacrifice into superannuation, lives on remaining $20,000
2. Owns home outright, invests all of gross earnings via salary sacrifice into superannuation, sells $20,000 worth of shares to live on (which held for more than 12 months and purchased for $5,000)

Scenario	Gross weekly earnings	Weekly income lost due to tax paid	Effective average tax rate
1	$1,923.08	$271.15	14.10%*
2	$2,211.54	$310.10	14.02%*

*This takes into account the tax-free threshold and LITO.
Source: authors' calculations

Brotherhood of St Laurence
67 Brunswick Street
Fitzroy Vic. 3065

ABN 24 603 467 024

Ph: (03) 9483 1183

www.bsl.org.au