ACOSS Budget Recommendations

2017-18 Budget

Summary table

	2017-18		2018-19	
	Cost ($m)	Saving ($m)	Cost ($m)	Saving ($m)
EXPENDITURE MEASURES				
Increase of allowance payments for single people by $54 a week	1900		1950	
Indexation of allowance payments to wages as well as prices	100		110	
Replacement of working credit scheme with income bank	300		310	
JobActive improvements	100		100	
Reform family payments	1200		1240	
Establishment of Affordable Housing Growth Fund	750		1000	
Review of and increase to Commonwealth Rent Assistance	775		800	
Effective preventive health mechanisms	150		154	
Increased investment in affordable, accessible dental care	1200		1230	
Removal of increased co-payments for PBS medications	450		540	
Restoration of community service funding levels to pre 2014-15 Budget Levels	0		1886	
Indexation of community services funding to wages	379		391	
Extension of deductible gift recipient status	700		800	
TOTALS	8004	0	10531	0

February, 2017

	2017-18		2018-19	
	Cost ($m)	Saving ($m)	Cost ($m)	Saving ($m)
TAX AND SAVINGS MEASURES				
Exemption of 50% of personal capital gains from Capital Gains Tax to be reduced from 50% to 25% over 10 years		0		500
Phase out tax concessions from the disposal of small business assets		150		300
Phase out deductions for personal investment expenses ('negative gearing')		150		300
Superannuation fund earnings and a new health and aged care services fund		0		1300
Medicare Levy changes		4000		4100
Tightening of age-based tax concessions		700		700
Curbing tax avoidance through private trusts		0		1500
Curbing tax avoidance through private companies		0		1200
Review of tax concessions		400		500
Curbing tax avoidance by companies operating internationally		0		500
Abolition of fuel tax credits for off-road use		0		2000
Abolition of immediate deduction for mining exploration		500		300
Sugar tax for sweetened drinks		0		500
Changes to alcohol excise		0		2300
Removal of Private Health Insurance Rebate (redirecting half the savings to public hospitals, community-based health services, dental health services and preventative health services.)		3400		3500
Abolition of Extended Medicare Safety Net		420		430
TOTALS	**0**	**9720**	**0**	**19930**

	2017-18		2018-19	
	Cost ($m)	Saving ($m)	Cost ($m)	Saving ($m)
TOTAL COST	$8,004		$10,531	
TOTAL SAVINGS	$9,720		$19,930	
NET TOTAL (savings)	$1,716		$9,399	

Recommendations in detail

Recommendation 1: Capital Gains Tax
The exemption of 50% of personal capital gains from Capital Gains Tax should be reduced from 50% to 25%, phased in over ten years.

Saving: $0 ($500 million in 2018-19)

Recommendation 2: Small business Capital Gains Tax concessions
The following tax concessions for capital gains from the disposal of small business assets should be phased out from 1 July 2017:

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

Saving: $150 million ($300 million 2018-19)

Recommendation 3: Deductions for personal investment expenses

(1) Income tax deductions for expenses (such as interest payments on debt) relating to passive investments in assets yielding capital gains (such as housing, shares and collectables) should be limited to income received from those assets, including capital gains realised on subsequent sale. This should apply to all new investments of this type entered into after 1 January 2018.

(2) Part of the revenue saved from this measure should be used to introduce a two-tier rental housing investment incentive paid as an annual tax offset for a fixed period (such as 10 years) in respect of new dwellings or improvements for residential rental purposes, below a fixed construction cost. A higher rate would apply to dwellings defined as 'affordable rental housing', as part of a wider package of incentives to support investment in affordable housing.

Saving: $150 million ($300 million in 2018-19)

Recommendation 4: Superannuation contributions

(1) All tax concessions for superannuation contributions (including the 15% employer contributions tax rate, deductions for contributions, and rebates for contributions by low income earners and for spouses) should be replaced in a revenue neutral way by a two-tier annual rebate paid into the fund, that is capped at a contribution level sufficient to support (along with the Age Pension) an acceptable retirement income for a typical worker.

(2) The rebate would be structured as follows:
- 100 cents per dollar contributed from any source up to $500 (indexed to movements in average fulltime earnings), to support retirement saving by low paid part time workers and replace the Low Income Superannuation Tax Offset;
- plus 20 cents per additional dollar contributed from any source up $15,000 (indexed to movements in average fulltime earnings).

(3) The rebate should be reduced to the extent that an individual withdraws funds from their superannuation account in the same year as they make a contribution, so that only net additions to savings attract a tax concession.

(4) The annual 'non-concessional contributions cap' should be reduced to three times the new concessional cap, and the ability to contribute up to three years' contributions within the cap in a single year should be removed.

(5) The 'catch up' provisions for concessional contributions should be abolished.

Saving: revenue neutral

Recommendation 5: Superannuation preservation age

The preservation age should be progressively raised from 60 years (the present legislated target) to 67 years by 2032, subject to the following exceptions:

(1) Allow continued access to superannuation from 60 years for individuals who are unable to continue in paid work due to disabilities, poor health or caring roles. This may include those whose impairments or caring roles would ordinarily qualify them for certain social security payments (such as the Disability Support Pension or Carer Payment)

(2) Alternately, if superannuation guarantee contributions are increased above 9.5%, allow all superannuation fund members, after at least five years of saving, to withdraw a modest proportion of their superannuation balance for any purpose, within lifetime limits, before they reach the preservation age.

(3) In raising the preservation age, make allowance for the lower life expectancy of Aboriginal and Torres Strait Islander peoples.

Saving: $0 ($0 in 2018-2019)[4]

[4] The Productivity Commission estimated if the preservation was increased to 65 by 2043, workforce participation among older workers would rise by around 2 percentage points in 2055 and revenue and expenditure savings of the order of $7 billion would accrue in that year. See Productivity Commission (2015), 'Superannuation policy for post-retirement'.

Recommendation 6: Superannuation fund earnings post-retirement

(1) The 15% tax on fund earnings in the 'accumulation' phase should progressively be extended to the 'pension' phase over a five-year period from July 2017 (with a 3% increase each year).

(2) This tax should be offset by a 15% rebate (minus any imputation credits) for taxpayers over the preservation age whose income (including Age Pension, earnings and investment income) falls below that taxpayer's tax free threshold (taking account of the proposed adjustments to the Senior Australians and Pensioner's Tax Offset (SAPTO)). The rebate would be calculated each year by the ATO and deposited into a superannuation fund chosen by the taxpayer.

(3) Ensure that capital gains accrued during working life are taxed appropriately when assets held within self-managed superannuation funds are disposed, or on retirement.

(4) Ensure that transfers from superannuation accounts to the estates of deceased fund members (apart from spouses and dependent children) are taxed at the statutory rate (17%).

(5) Revenue collected from these measures (which would rise substantially in later years) should be earmarked (along with the Medicare Levy increase in Recommendation 6 and changes to age –based tax concessions in Recommendation 7) for public expenditure on health, aged care and disability services.

Saving: $0 ($1,300 million in 2018-19)

Recommendation 7: Strengthening the Medicare Levy

The exemption from the Medicare Levy high-income surcharge (applying to families earning more than $180,000 and single individuals without children earning more than $90,000) who take out private hospital insurance cover should be abolished from July 2017.

Saving: $4,000 million ($4,100 million in 2018-19)

Recommendation 8: Age-based tax concessions

(1) The SAPTO should be replaced by a tax offset for recipients of pension payments designed to exempt the pension plus private income within the pension 'free area' from income tax, restricted to individuals entitled to a social security pension.

(2) The Medicare Levy exemption threshold for people over 64 years should also be equal to the relevant pension plus the 'free area'.

Revenue collected from these measures should be earmarked (along with the Medicare Levy) for public expenditure on health and aged care services along with revenue from the superannuation tax changes in Recommendation 6.
Saving: $700 million ($700 million in 2018-19)

Recommendation 9: The use of private trusts to avoid personal income tax should be curbed

(1) From 1 July 2018, private trusts (both discretionary and fixed) should be taxed as companies. This would not apply to collective investment vehicles of certain categories of excluded trusts including complying superannuation funds, disability trusts, and trusts established pursuant to court orders.

(2) From July 2018, the ATO should extend its 'corporate tax transparency' data to provide information on all business and investment entities (including companies, trusts and partnerships) with annual total income over $100 million.

Saving: $0 ($1,500 million in 2018-19)

Recommendation 10: Private companies

From 1 July 2018, income retained in private companies, apart from a reinvestment allowance comprising a fixed proportion of the assets of the company, should be taxed at the top marginal rate of personal income tax plus Medicare Levy.

Saving: $1,200 million in 2018-19

Recommendation 11: Tax expenditures

(1) From 1 July 2015 the following tax concessions should be removed or tightened:

- The Private Health Insurance Rebate should be abolished [5]
- 'Grandfathering' arrangements for previous tax concessions for non-superannuation termination payments and unused leave (apart from bone-fide redundancy payments) should be removed.

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

Saving: $400 million ($500 million in 2017-18)

Recommendation 12: International business tax avoidance

1. Base Erosion and Profit Shifting by companies operating internationally should be curbed by making the following changes from July 2018:

    (1) Tighten thin capitalisation rules so that allowable debt deductions are based on a company's global debt-equity ratio.

    (2) Improve the transparency of reporting on business income and taxation flows by requiring public disclosure of the ultimate beneficial ownership of companies registered in Australia; requiring the ATO to publicly release 'high level reports' under the OECD country-by-country reporting initiative in

[5] The savings in direct expenses arising from this measure are costed in Chapter 4.

regard to companies with turnover above $750 million; and requiring the ATO to share information on the tax status of trusts and partnerships as well as companies with other tax authorities pursuant to international agreements.

(3) Apply special withholding taxes on transfers of funds to 'secrecy jurisdictions' that do not provide effective information exchange pursuant to international treaties.

Saving: $500 million in 2018-19

Recommendation 13: Fuel tax credits

Fuel tax credits for off-road use, except agriculture, should be abolished from July 2018.

Saving: $2,000 million in 2018-19

Recommendation 14: Deductions for mining exploration

The immediate deduction for mining exploration should be abolished from July 2017.

Saving: $500 million ($300 million in 2018-19)

Recommendation 15: A 'sugar tax' on sweetened drinks

(1) As part of a comprehensive strategy to reduce sugar consumption (especially among children) where this is harmful to health, and to better incorporate related health and social costs into its price; from 1 July 2018 a two-tier volumetric 'sugar tax' should be introduced for water-based drinks with added sugar (excluding pure fruit juices) at rates of 30 cents per litre for drinks with 5-8 grams of added sugar per 100ml, and 40 cents per litre for those with over 8 grams of added sugar per 100ml.

(2) The revenue from this excise should be earmarked for expenditure on preventive health care services, health promotion schemes focussing on healthy eating and fitness, fitness programs for children and young people, and fresh food transport subsidy for remote areas.

Saving: $500 million in 2018-19

Recommendation 16: Alcohol excise

a. As part of a comprehensive strategy to reduce alcohol consumption where this is harmful to health, and to better incorporate related health and social costs into its price, from July 2018 the WET and WET Rebate should be abolished, wine should be taxed at a uniform rate of $56 per litre of alcohol content and ciders at $33 per litre.

b. The revenue from this excise should be earmarked for expenditure on preventive health care services, including prevention of foetal alcohol syndrome.

Saving: $2,300 million in 2018-19

Recommendation 17: Deductions for charitable gifts
Extend deductible gift recipient status to those charities whose dominant purpose is altruistic and for the public benefit.

Costing: $700 million ($800 million in 2018-19)

Recommendation 18: Increase Allowance payments for single people by $54 per week

(1) Allowance payments for single people should be increased by $54 per week from March 2018, and benchmarked to 66.3% of the combined couple rate of Allowances (a higher rate in the case of sole parents) as is the case for pension payments. This applies to people on Newstart Allowance, Widow Allowance, Sickness Allowance, Special Benefit and Crisis Payment.

(2) Allowance payments for single people on youth and student payments (Austudy Payment, Abstudy Payment and Youth Allowance) who are either over 24 years of age or 18-24 years and living away from the parental home should also be increased by $54 per week from March 2018 and benchmarking of those payments to 66.3% of the couple rate should be phased in.

Costing: $1,900 million ($1,950 million in 2018-2019)

Recommendation 19: Index Allowance payments annually to movements in earnings
From July 2017, Allowance payments for people aged 17 to Age Pension age, and those over pension age not eligible for an Age or Veteran's Pension, should be indexed annually to movements in wages as well as to movements in prices.

Costing: $100 million ($110 million in 2018-19)

Recommendation 20: Establish a Social Security Commission
A Social Security Commission should be established as a statutory authority to advise the government and Parliament on a regular basis on the financial needs of people relying on social security payments, appropriate relativities between them, and the budgetary costs and implications for employment incentives of policy options to improve payment adequacy.

Costing: $5 million ($7 million in 2018-19)

Recommendation 21: Replace the working credit scheme with a $4,000 income bank
From 1 July 2017, replace the working credit scheme for Newstart and Youth Allowance (Other) recipients with a $4,000 income bank that accrues from the day they start receiving the allowance and would reach the full amount after six months (where the person has been without work). The income bank should be indexed to the Consumer Price Index annually.

Costing: $300 million ($310 million in 2018-19)

Recommendation 22: Abolish compulsory income management and the cashless welfare card trials

Compulsory income management and trials of the cashless welfare card should be abolished in all states and territories. Transition arrangements should be put in place for individuals and communities wishing to retain voluntary income management and cashless card schemes. Opt-in schemes should be co-designed with communities and include wrap-around supports such as drug and alcohol, financial counselling and social support services.

Saving: $95 million ($97 million in 2018-19)

Recommendation 23: Reform Community Development Programme

The Community Development Programme must be reformed to prevent further disadvantage to communities, which has arisen, in part, because of the onerous requirements it imposes on participants. Reform must be Indigenous-led, with a new program co-designed with communities. There must be a focus on the delivery of waged work, recognising the distinct lack of employment opportunities in remote areas.

Costing: revenue neutral

Recommendation 24: A career transitions program

(1) A career transitions scheme should be introduced either within or outside the jobactive system, to offer career counselling, skills assessment, and access to suitable training at an early stage of unemployment to the following people in receipt of working age income support payments who are seeking to enter or return to paid employment and have not had experience of paid work over the last 12 months:

- primary care-givers of children or people with disabilities and people who recently relinquished the caring role (who would also be offered help to secure alternative care);
- people of mature-age (50 years or over);
- young people (under 25 years) who have not completed Year 12 or equivalent education and are not participating in the Transition to Work program.

(2) For those identified as significantly disadvantaged in the labour market, career counselling should be integrated with other forms of assistance, including where appropriate paid work experience in regular jobs.

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

Costing: $50 million ($70 million in 2018-19)

Recommendation 25: Improving the effectiveness of jobactive

(1) From July 2017, service fees for jobseekers who are unemployed for more than 12 months, or in Streams B or C, should be increased from $255 to $355 each six months.

Costing: $50 million ($50 million in 2018-19).

(2) Funds earmarked for Work for the Dole (including for Work for the Dole Coordinators) should be untied and reallocated into the Employment Fund to assist individuals who are unemployed long term with work experience, training and other assistance that improves their job prospects.

Saving: $250 million ($250 million in 2018-19).

(3) Credits should be made to the Employment Fund in respect of each jobseeker at the commencement of 12 months and 24 months of unemployment, equivalent to those made at the commencement of the unemployment spell, to assist with barriers to employment and help finance 'mutual obligation' activities.

Costing: $300 million ($300 million in 2018-19)

(4) The Employment Fund should be divided into two parts:

   a. an 'investment fund' for substantial investments in activities and services that improve employment prospects (above and beyond assessment and job search assistance), such as work experience, training, relocation assistance, and professional services; and

   b. an 'incidental expenses' fund for expenses faced by jobseekers and providers (such as travel to interviews, work related clothing and equipment, and use of interpreters) which is notionally distributed according to local need for these services (for example, based on remoteness and English-language proficiency).

(5) Employment Fund credits should be available for training whether or not this is linked to a specific job, and for the purpose of establishing 'demand-led' schemes, that is, a formal agreement with an employer to supply them with workers drawn from people who are either unemployed long term or classified within Streams B or C, and to mentor and train those workers for positions with the employer.

(6) The impact of the above changes should be evaluated, for example by comparing employment outcomes for similar unemployed people who receive different forms of assistance through the Employment Fund.

Total costing for this Recommendation: $100 million ($100 million in 2018-19)

Recommendation 26: Reform family payments to better target assistance and reduce child poverty

The following changes are proposed as a package of reforms, in conjunction with proposals to increase allowance payments (see Chapter 3) and establish a payments commission to recommend payment benchmarks:

- **Index family payments to wage movements as well as to CPI:** Restore previous benchmarking of maximum rates of family payments to pension rates, based on the age of each child.
- **Replace FTB Part B for *single parent families* with a Sole Parent Supplement:**

The supplement should be benchmarked to the costs of children of different ages and reflect the diseconomies of scale experienced by sole parents. As a starting point, the Supplement should be set at a level which brings sole parent families with children in the middle and teenage years at least up to the same income level as families with children under 8 (currently receiving Parenting Payment Single), in conjunction with increases in unemployment payments. On current figures, this would require a Supplement to the value of $114 per week for a sole parent family with one child in the middle years. For a sole parent with one primary school age child the proposed changes would result in a total income equal to 87% of the couple pension rate. The purpose of the supplement is to ensure that this relativity correctly reflects the extra costs of raising a child alone.

Costing: $1,200 million ($1,240 million in 2018-19)[6]

Recommendation 27: Establish a long term Affordable Housing Growth Fund

An Affordable Housing Growth Fund should be established with a commitment of $750 million in the first year, growing to $10 billion over 10 years.

Costing: $750 million ($1,000 million in 2018-2019)

Recommendation 28: Establish a housing finance intermediary to underpin a future rental investment scheme

The government should establish the financial architecture to attract institutional investment in affordable private rental stock at scale.

Costing: $20 million ($35 million in 2018-19)

Recommendation 29: Review Commonwealth Rent Assistance and increase the maximum rate of CRA

CRA should be reviewed to ensure that it best meets the needs of people who are on low incomes. As a first step, the maximum rate of CRA should be increased from 1 June 2017 by 30% (approximately $20 per week) for low income households currently receiving the highest rate of CRA.

Costing: $775 million ($800 million in 2018-19)[7]

Recommendation 30: Ongoing investment in effective preventive health mechanisms

Investment in preventive health programs should be increased through savings derived from ineffective health expenditure, maintained on the basis of population growth and effectiveness of programs.

[6] This is an estimate only. Detailed modelling is required to assess the budget impact of this proposal.

[7] Calculated using Stinmod and indexed to growth in CRA expenditure (projected to be more than 3%), based on recent trends. See DSS, (2016): op.cit.

Costing: $150 million ($154 million in 2018-19)

Recommendation 31: Remove the Private Health Insurance rebate from 1 July 2017
The rebate has not reduced pressure on public hospitals and should be removed, with half its savings redirected to public hospitals, community based health services, preventive health and public dental health services for people on low incomes.

Saving: $3,400 million ($3,500 million in 2018-19)[8]

Recommendation 32: Abolish the Extended Medicare Safety Net
The Extended Medicare Safety Net should be abolished due to its role in inflating prices, with its savings redirected to public hospitals and community based services.

Saving: $420 million ($430 million in 2018-19)

Recommendation 33: Increase investment in affordable, accessible dental care for children and adults
Ensure access to basic, preventive dental care through the public health system for children and adults, funded through the redirection of savings from the abolition of the Private Health Insurance rebate.

Costing: $1,200 million ($1,230 million in 2018-19)

Recommendation 34: Remove increased co-payments for PBS-subsidised medications

The savings forecast by the government through the introduction of this budget measure in 2014 should be reversed.

Costing: $450 million ($540 million in 2018-19)

Recommendation 35: Redirect savings from tightening of income test and caps for higher income households to address improve access for children in low income families

1) Replace the proposed three-tiered subsidy with a simpler and more sustainable two-tiered model (a linear taper), with a maximum subsidy of 85% for families on less than $65,700 tapering to a base subsidy of 30% for households on more than $250,000 per annum.[9]
2) Reduce the subsidy cap for higher income households from $10,000 to $7,500 per annum, and resume indexation.

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[8] Commonwealth of Australia (2016) 'Budget Paper 1' at 5-12. Available: http://www.budget.gov.au/2016-17/content/bp1/download/bp1.pdf

[9] The Productivity Commission estimated the cost of tapering to a base rate of 30% (instead of 20%) at approximately $185 million per annum, compared to its alternative model, but these costs would be offset by the removal of the proposed mid-tier 50% subsidy rate for families on $170,000-$250,000. See Productivity Commission, Childcare an Early Childhood Learning, Inquiry Report Volume 2, No. 73, 2014 at Figure 16.15.

3) Provide a minimum of two full days of subsidised early childhood education and care per week for all families, regardless of activity. Activity requirements should apply only to families seeking care for more than two days per week.[10]
4) Establish an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net, which provides children with 22.5 hours or three sessions of ECEC per week and enables the provision of playgroups, mobile services and outside school hours care in regional and remote communities.[11]

Costing: Revenue neutral[12]

Recommendation 36: Restore community service funding levels, including through the Indigenous Advancement Strategy

Provision for restored funding levels to pre-2014-15 Federal Budget Levels, commencing from 1 July 2018

Costing: $0 ($1,886 million in 2018-19)

Recommendation 37: Index community services funding to wage movements

Ensure funding for the delivery of community services is tied to the 2016 MYEFO Wage Price Index.

Costing: $379 million ($391 million in 2018-19)

Recommendation 38: Direct representation of community services in mapping service needs and competition policy reform

Ensure direct representation of non-profit community services in mapping service needs, estimating the value these organisations add to civil society, and in ongoing dialogue on competition policy reform including, but not limited to, the Productivity Commission Inquiry into Human Services

Costing: revenue neutral

Recommendation 39: Develop a social innovation framework and funding model

Costing: $3 million

Recommendation 40: Core funding for institutional capacity of Aboriginal and Torres Strait Islander representation

Provide core funding for the institutional capacity of Aboriginal and Torres Strait Islander representation in policy making and national decision-making

Costing: $3.5 million ($3.6 million in 2018-19)

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[10] The Productivity Commission estimated the cost of removing the activity test altogether as more than $1 billion per year, while the cost of removing the test for those on Parenting Payment and increasing the minimum weekly entitlement to 20 hours per week was estimated at approximately $250 million per annum. See Productivity Commission (2014), Childcare and Early Childhood Learning, Inquiry Report Volume 2, No. 73, 2014 at Figure 16.15.

[11] Estimated cost of $100 million per annum.

[12] The new system is due to start on 2 July 2018. It is proposed that any additional costs not met by the changes to income tests and subsidy rates would be covered through the redirection of savings committed through previous cuts to the package from the 2015 MYEFO as well as the 12-month delay in implementation of the scheme. Detailed modeling is required to assess the net impact of the changes.