



TAX FORUM

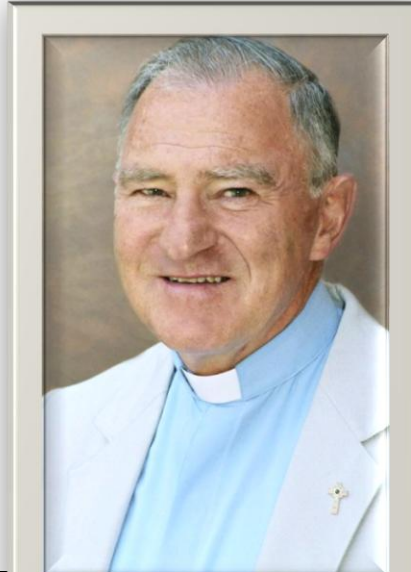
4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Bishop Pat Power, Board Member, Catholic Social Services Australia

Auxiliary Bishop, Archdiocese of Canberra/ Goulburn



ORGANISATION

Catholic Social Services Australia (CSSA)

Catholic Social Services Australia seeks to enhance the dignity of all people and the economic, social and spiritual well-being of the Australian community. Its members provide services to over one million Australians. The work of its 69 member agencies is funded through a combination of government and non-government income sources.

STATEMENT OF PRIORITIES



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Principles for taxation reform

Taxation reform should aim to achieve three thingsⁱ:

- Improve the prosperity and life circumstances of all Australians with particular focus on the needs of the poor;
- Deliver a robust tax revenue base; and,
- Encourage employment generating investment.

Main priorities for reform should be to:

- Address negative interactions between the tax and income payments systems;
- Address the needs of low income households and families;
- Minimise tax avoidance; and,
- Ensure a more robust revenue base for funding Australia's social services and economic needs.

Improving the income support payment system

CSSA supports the creation of a more streamlined income support system that eliminates the distinction between pensions and allowances and which ensures an adequate minimum standard of living. In this regard, the proposed ACOSS model of a **Minimum Standard of Living** to cover basic living expenses, with supplements for disability, caring, housing rents and related matters provides a sound model. Income support recipients would be encouraged to search for work and to train through job search and training supplements that help with the costs of doing so.ⁱⁱ

The Australian Future Tax System Review (AFTR) identified the primary purpose of government income payments as ensuring a minimum adequate standard of living, taking into account individual circumstances and prevailing community standards (p 485). At around \$237 per week, the Newstart Allowance is below the 50 per cent of median income poverty threshold, a level so low that even the OECD recommends it should be increased.ⁱⁱⁱ There is a need to raise the single rate of payment to a level of two thirds of the partnered rate.

CSSA has recommended establishing an independent Australian Entitlements Commission to set and adjust adequate standards of living in a transparent way.^{iv} An adequate standard of living is one that allows an individual to live in frugal comfort, maintain their dignity, and take part in the life of the community. As with the Remuneration Tribunal that determines entitlements for members of parliament and judges, an Entitlements Commission would provide a more robust and transparent basis for setting payment standards.



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Fringe benefits tax exemption

The AFTR recommended that Fringe Benefits Tax (FBT) concessions for the Not for Profit Sector should be phased out and replaced with direct government funding.

However, the FBT concessions are critical for social service agencies in attracting and retaining skilled staff. Wages and salaries are the sector's major expense and the quality of employees drives the quality of services delivered. Without the concession or full supplementary funding to cover government programs, the vast majority of agencies would be unable to attract and retain the type of staff needed to run effective programs. A recent survey of our members indicates that approximately 30% of total revenue across the network is self-generated therefore the removal of the FBT exemption would diminish their capacity for delivery of social services.

Part of the value of this concession is captured by State, Territory and Commonwealth agencies in the form of their purchase of services at a lower cost than they would otherwise face. Abolishing the concession would be both costly for governments and significantly disruptive for social services agencies.^v It would lead to increases in awards and Enterprise Bargaining Agreements. These would apply to all workers; not just those currently using salary packaging.

FBT concessions also support the social services sector in a way that promotes autonomy, innovation and flexibility. Replacing them with the same dollar value of direct funding through individual government programs would be simpler but would reduce the capacity of social services organisations to innovate, fill gaps in service delivery and to actively engage in policy and program development and evaluation. It would also increase their organisational vulnerability to fluctuations in government funding agreements, with negative consequences on their medium term program development and planning.

It is also critical to bear in mind that around 50% of services delivered by our members are State funded (a similar trend is experienced by other social service Australia-wide networks) and as such, decisions about FBT should also take into account any potential impact on state/territory funded services.

Rather than phasing out the FBT concession, the government should bring the value up to the 'real' 2011 rate, retain it and appropriately index it each year. Since some elements of the concession such as meal entertainment packaging have been open to abuse, there should be a review of how the concession is administered.

Unrelated Business Income Tax

In a forum focused on Tax Reform the newly introduced concept of an Unrelated Business Income Tax for Charities should be taken into consideration during this debate.

In reiterating the government's response to the AFTR in May this year, the Deputy Prime Minister and Treasurer stated that the government would not remove the benefits of tax concessions for the not-for-profit sector^{vi}. Given this commitment, the earlier National Compact commitment about a



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process for achieving reform change and the government's commitment to reduce government red tape for the sector, the introduction of an Unrelated Business Income Tax measure in the May federal budget was not welcomed by the community sector, including CSSA.

CSSA has welcomed the opportunity to consult with the Assistant Treasurer about this and has sought clarification about the primary reason for the proposed legislation on this matter. It is understood that government believes it faces a significant risk of lost tax revenue in the absence of the new measure but the basis for this view has yet to be provided.

To address cases where the tax concession system is, or appears likely to be, breached, it is preferable to apply federal and state regulatory powers related to tax avoidance rather than to implement a new tax measure.

Further, it should be acknowledged that the proposed implementation of a UBIT is likely to increase red tape and costs for many agencies.

For these reasons, CSSA believes a UBIT tax should not be introduced.

Minimisation of Tax Avoidance

It is recommended that further steps be taken to reduce tax avoidance. CSSA endorses the AFTR recommendations to restrict negative gearing, tighten the rules for contractors using private companies and remove terminations as a tax offset.

LIST OF ATTACHMENTS

Response to Treasury's Consultation Paper on 'Better Targetting of the not-for-profit tax concession', Catholic Social Services Australia 2011.

http://www.catholicsocialservices.org.au/system/files/CSSA_Submission_Better_Targetting_NFP_tax_concessions_8_July_2011.pdf

Submission to the Review of 'Australia's Future Tax System', Catholic Social Services Australia and Catholic Health Australia, 2009.

http://www.catholicsocialservices.org.au/system/files/2009%2005%2004%20NFP_1_0.pdf

An Australian Entitlements Commission, Catholic Social Services Australia, 2008.

<http://www.catholicsocialservices.org.au/system/files/Entitlements%20commission%20-%20FINAL.pdf>

The Obligation is Mutual, Catholic Social Services Australia, 2007.

<http://www.catholicsocialservices.org.au/system/files/Entitlements%20commission%20-%20FINAL.pdf>

Common Wealth for the Common Good, the Australian Catholic Bishops Conference, 1992.

Collins Dove, Melbourne.



Australian Government



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ⁱ Position paper of the Australian Catholic Bishops on the Moral Reference Points for Tax Reform (1998)

ⁱⁱ ACOSS. (2010). *Out of the maze: a better social security system for people of working age*. Sydney: Australian Council of Social Service.

ⁱⁱⁱ Koutsogeorgopoulou, V. (2011). *Enhancing labour utilisation in a socially inclusive society in Australia economics department working papers no. 852*. Paris: OECD.2011

^{iv} An Australian Entitlements Commission: A proposal for an independent commission to inform decisions about the adequacy of pensions and other income support payments (CSSA Sept 2008)

^v Submission by CSSA and Catholic Health Australia 2009

^{vi} Treasurer's Media Release No. 028, 2 May 2011.

<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/028.htm&pageID=003&min=wms&Year=2010&DocType=0>