



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

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STATEMENT OF PRIORITIES

1. In considering reforms to the social security system, it is important to deal with immediate priorities, but it is also important to consider medium and longer term objectives.
2. This paper focuses on income support for people of working age, and does not discuss in detail options for payments to people of pension age.
3. The main aim of the Australian social security system is to provide adequate support to people in financial need (promote “vertical equity”). A related objective is to promote “horizontal equity”.
4. In meeting this fundamental objective, it is also necessary for the system to minimise adverse incentives to work and save. The benefits system should also treat different types of households equitably, and the system should be politically and economically sustainable, both in terms of current taxpayer funding and future funding requirements in the context of population ageing and economic risks and uncertainty.
5. Overall, the Australian social security system has many strengths: Australia targets income support to the poorest groups in the population to a much greater extent than any other rich economy, allowing us to provide minimally adequate support at relatively low financial cost. A lower proportion of the population are receiving income support payments than most other rich economies, and it can be argued that despite the importance of means-testing in the Australian system, we have less of a “poverty trap” problem than other countries.
6. Despite these strengths, there are major challenges facing the system. The current system is complex. There are around 40 income support, family and supplementary payments, with overlapping application for different individuals and family types, plus various tax concessions. This multiplicity of payments means that the system can be difficult to manoeuvre for recipients and raises the possibility that people in broadly similar circumstances can receive different levels of payments. This in turn raises the possibility that some payments are less adequate than others, and there can be incentives for low income people to qualify for the most advantageous payments.
7. Payments for the unemployed are considerably lower than pensions for the retired, people with disabilities or carers, and there is evidence that Newstart payments are becoming increasingly inadequate. Current indexation arrangements mean that this gap will grow over time.
8. Those facing high housing costs in the private sector need more adequate rent assistance.



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9. To meet these urgent current challenges, the single rate of Newstart should be increased by around 20%, and rent assistance should be increased substantially (with a rent threshold of around 20% of income before support is payable). The liquid assets test threshold should be increased substantially or abolished.
10. In the longer run, Rent Assistance should be indexed to rental costs, and the indexation of unemployment payments needs to be regularly reviewed and adjusted to ensure payments are adequate when compared to community benchmarks.
11. These initiatives can be paid for through the taxations changes recommended by the Henry Review, including changes in the taxation of alcohol and tobacco, better targeting of tax offsets, changes in the taxation of fringe benefits, a more comprehensive income test for pensions and benefits and improved targeting of family payments.

LIST OF ATTACHMENTS

Tax reform and the social security system following the Henry Review