

# ACTU SUBMISSION

## BUDGET SAVINGS (OMNIBUS) BILL 2016

9 September 2016

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# CONTENTS

INTRODUCTION.....	3
WE NEED TO INVEST IN A STRONG ECONOMY AND SOCIETY.....	5
WE NEED A JOBS PLAN TO DEAL WITH THE GROWING JOBS CRISIS.....	6
THE NEED FOR TAX REFORM .....	7
OMNIBUS MEASURES .....	10
<i>ARENA FUNDING</i> .....	10
<i>R&amp;D TAX INCENTIVE</i> .....	12
<i>CLOSING CARBON TAX COMPENSATION TO NEW WELFARE RECIPIENTS</i> .....	13
<i>SOCIAL SECURITY AND PAID PARENTAL LEAVE</i> .....	14
EDUCATION RELATED MEASURES .....	15
OTHER MEASURES.....	15

## INTRODUCTION

Economic decisions don't happen in a vacuum, they are shaped by the ideologies and values of the people making those decisions.

This Omnibus Bill tells us that the Turnbull government is prepared to sacrifice the community of tomorrow for the sake of the privileged today. It is a government willing to deplete the health, education, infrastructure and public services our community depends on to pay for tax cuts for corporations who don't currently contribute their fair share.

It is a government ready to cut the income of our poorest at the same time as providing tax breaks for our wealthiest. The government's program of sustained cuts to public services and infrastructure will not only have a significant impact on the day to day lives of people who are already struggling to get by, they will hinder the chances of future generations to reach their full potential.

Cuts to Newstart payments have left the unemployed and their families living below the poverty line. Cuts to health and education have compromised families' access to vital health services and the best start in life for our children. Cuts to our higher education, vocational education, TAFEs and apprenticeship programs have limited young people's access to the skills and education they need for the jobs of the future. Cuts to science, research and renewable energy organisations have weakened our global competitiveness, ability to innovate and create good jobs.

We urge the government not to continue to be driven by expenditure cuts that undermine investment in the fundamental social and tangible infrastructure of economic growth that delivers quality jobs, quality services and high living standards. We can't cut our way to prosperity. We can only grow and invest our way to prosperity. The 'trickle down' logic of the government has always been flawed and now it is widely understood to be inconsistent with strong and sustainable economic growth. This has been repeatedly confirmed by recent findings from the World Bank, IMF and the OECD. Every expert and policymaker in the world, with the tragic exception of those that constitute our Government, now understand that growing inequality in wealth and income is one of the biggest social, economic and political challenges of our time and that public expenditure cuts hamper inclusive economic growth and living standards. As IMF Managing Director Lagarde said at the G20 this year "There must be more growth, and it must be more inclusive."<sup>1</sup>

Overseas experience shows that cuts which are unfairly targeted at low and middle income households, such as many of those contained in this Bill, have hollowed out working and middle classes and as a result consumer demand; a crucial driver of economic growth, jobs and higher living standards. As well as being morally unjust, such policies are economically unsound and inefficient.

Government investment and expenditure is key to promoting economic growth, jobs and improved living standards. Not only it is unwise to retrench public expenditure at a time when private spending is stagnating and international demand is depressed, it is perhaps even more unwise to ignore or deny the fundamental role that public education, health, research, and a raft of other services play in supporting economic growth. Fiscal austerity is a drag on growth when we desperately need significant investments in physical infrastructure, education, health services and developing the skills of our workforce.

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<sup>1</sup> "(<http://www.reuters.com/article/us-g20-imf-lagarde-idUSKCN11B1A6>)"

Rather than one-off, short term savings through cuts which have little long term structural impact on the budget bottom line, this government should be developing a comprehensive, long term plan to invest strategically in high quality health, education, skills and training, research and innovation and clean technology and infrastructure to sustain a strong economy and society in to the future.

To do this, the government must have the political courage to address corporate tax avoidance, close tax loopholes and reform egregious high income concessions in areas like negative gearing, capital gains and superannuation. Our revenue base remains less than optimal because we have allowed multinational companies and the very wealthy far too many opportunities to evade and avoid contributing their fair share to the public good. This where the government focus should be - not on short term cuts which undermine the future prosperity of our economy and our society.

## WE NEED TO INVEST IN A STRONG ECONOMY AND SOCIETY

We need high quality schools, hospitals, universities and infrastructure to sustain a strong economy and society in to the future.

Our past failure to fairly tax the resource sector and reinvest in infrastructure and innovation to develop long term industry, a better skilled workforce and quality public services means that we face enormous challenges today. And yet the government is on the verge of making the same mistake again. Maintaining a myopic focus on securing a fiscal surplus is misplaced and misunderstands the financial constraints faced by any sovereign government.

To boost our long term growth rate and provide a conducive climate for private sector investment we require substantial and rapid public investment in renewable energy, public transport, and better communication infrastructures. We need a plan to boost domestic sources of growth through industry policy and wages policy.

We need, and want, a government that will balance the fiscal deficit over the full course of the economic cycle, to ensure that the relationship between public debt levels and economic growth is optimal and that inflation remains positive but low. Compared to most advanced economies in the world we have an extremely low level of government debt. Global interest rates are negative in real terms and the government is well placed to issue long term bonds at very low and fixed interest rates. It makes economic sense to borrow and lock in these favourable public investment conditions, especially at a time when investment is so sorely needed. The outgoing Governor of the RBA Glen Stevens has made this point and as managing director of the IMF Christine Lagarde said last week, *'where there is fiscal space (like in Australia), record-low interest rates make for an excellent time to boost public investment and upgrade infrastructure'*.<sup>2</sup>

Public investments in the fields mentioned above will more than pay for themselves. They will generate faster economic growth and higher tax receipts thus covering the extremely low borrowing costs. They will create well paid jobs in the short run and give the private sector the support it requires to compete in global markets over the long run.

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<sup>2</sup> Christine Lagarde 'The policies we need to avoid a low-growth trap' World Economic Forum, 2 September 2016

## WE NEED A JOBS PLAN TO DEAL WITH THE GROWING JOBS CRISIS.

With high unemployment levels and subdued growth prospects, reducing unemployment and improving economic growth rather than demonising the unemployed must be priority for the government.

Unemployment has been close to or above 6% for nearly four years, with around five unemployed people for every job vacancy. While the headline unemployment figure fell 0.1% to 5.7% in July, this masks the continuing disturbing slide in full time employment. Since January 2016, part time employment has increased by 101,200, while full time employment decreased 19,900.

A large proportion of those gaining employment have not been able to find full time jobs, rather are in various casual and precarious work arrangements with inadequate hours of work. More than one million employed Australians are looking to pick up more work.

Youth (15-24) unemployment continues to be in double digits. Youth unemployment rose again in the month of July 2016 to 12.7% of the youth labour force, for a total of 268,000, that is 7,200 more unemployed youth than the previous month June, and 14,600 more than May. This is more than double the rate for total unemployment.

## WE HAVE A REVENUE CRISIS, NOT A SPENDING CRISIS

The whole premise of the Omnibus Bill is that the government is spending too much. In fact Australia is a low government spending country, with the second lowest government expenditure as a share of GDP of the high income OECD countries, at 36.3% of GDP in 2012, a massive ten percentage points below the OECD average of 46.3%.

Government expenditure on health as a share of GDP in Australia is also below the OECD average. While the total government health care spend per capita in Australia is about six per cent less than the high income country average, the out of pocket spending on health per individual Australian is a full third higher than the high income country average.<sup>3</sup> The average out of pocket spend is estimated to be at least A\$1000 per year per person in Australia. The current governments planned reforms to health care are designed to shift this cost burden even further to ordinary Australians.

Australia also has one of the lowest shares of government expenditure on education out of the OECD countries, 4.3% of GDP compared with the OECD average of 5.4% in 2011. For primary, secondary and TAFE levels combined, Australia's share of government expenditure in total educational expenditure (85%) was third lowest of all OECD countries.<sup>4</sup> Its share of government expenditure in total for tertiary education (45%) was fifth lowest<sup>5</sup> and in early childhood education and care is half of that recommended by the OECD.<sup>6</sup> Australia has become much more reliant on private spending on

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<sup>3</sup> 2013, derived from World Bank <http://wdi.worldbank.org/table/2.15#>

<sup>4</sup> 2011

<sup>5</sup> OECD Education at a Glance 2014 p239

<sup>6</sup> OECD Expenditure Database 2014, Chart PF3.1.A Public expenditure on childcare and early education services, per cent of GDP, 2011

education than most other OECD countries which is an obvious cost burden and barrier for ordinary Australian's participating in and gaining the benefits of education.

This unfair shifting of financial burden to households is also a concern for the economy. As outgoing RBA governor Glenn Stevens recently noted, 'Foreign visitors to the Reserve Bank over the years have tended to raise questions about household debt much more frequently than they have raised questions about government debt.'<sup>7</sup>

Government spending is key to promoting sustainable and inclusive economic growth and fairness. Bringing the provision of health, education and other infrastructural services up to standards commensurate with comparable countries is vital to support business and a healthy and productive community.

## THE NEED FOR TAX REFORM

Rather than the often decried spending problem, the long term challenges to sustainability of public finances are clearly the result of a revenue problem: government revenue has been steadily declining over the past decades.

Australia's total (all levels of government) tax revenue as a percentage of GDP at 27.3% is well below the OECD average of 35.5%.<sup>8</sup> Australia has equal third lowest share of total tax in GDP of the high income OECD countries.<sup>9</sup>

Tax revenue reform should focus on ensuring government has a sufficient revenue base by closing tax loopholes for corporations and the extremely wealthy to support a productive community and to make the necessary investments for a strong, competitive economy for the future.

Not only do we collect less tax than the majority of other OECD countries, our system is increasingly inequitable, with those on high incomes paying a smaller and smaller share of taxes over time while receiving a bigger and bigger share of income.<sup>10</sup>

The declining progressivity in the tax system is shown by the drop in the share of middle and lower income households in disposable household income over the last ten years and the increase in the share of the top fifth.<sup>11</sup>

Australia has tax concessions which are not available to the same extent in most other high income countries. Measures specific to Australia include those pertaining to capital gains, negative gearing, superannuation and trusts. These are used disproportionately by high income earners to further reduce their taxable income. Seventy-five individuals in 2011-12 who received more than \$1 million in income in 2011-12 paid virtually no income tax at all. These individuals were able to declare an average taxable income of just \$1.09.<sup>12</sup>

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<sup>7</sup> Rob Burgess, 'There are Two Debt Problems in Mr Morrisons Back Yard', The New Daily, 30 August 2016

<sup>8</sup> in 2012 (most recent)

<sup>9</sup> The USA in particular has funded expenditure from budget deficits.

<sup>10</sup> Profit share of income has increased from 24% to 37% over the 50 years to 2014 (The Australia Institute, 2014, *Income and Wealth Inequality in Australia* p12).

<sup>11</sup> ABS 6523

<sup>12</sup> ATO (2014a) *Individual tax: Selected items, by total income and taxable income, 2011-12 income year* Source: ATO (2014a) TAI 2015 Closing the Tax loopholes: A Buffett rule for Australia, p5.

Negative gearing concessions cost government revenue more than \$3.7 billion each year. Negative gearing is highly regressive, with fifty per cent of negative gearing tax breaks going to the top 20% of households and only 6% to the lowest fifth.<sup>13</sup>

Negative gearing has contributed to higher housing prices and put house ownership increasingly out of reach for large sections of the population. It has also served to skew investment towards property and away from other productive activities.

Capital Gains Tax (CGT) discounts which apply in Australia are much more generous than in most other high income countries and are estimated to cost government revenue between \$4.0 - \$5.7 billion per annum. CGT tax breaks are extremely regressive, benefiting mostly high income earners with almost three quarters of CGT breaks going to the top 10% of high income households<sup>14</sup>.

Almost 60% of superannuation tax concessions accrue to the top 20% of income earners and the bottom 10% of income earners are actually worse off. It is clear that superannuation is being used by the wealthy not as a retirement income scheme but for estate planning and tax minimisation purposes. The generous superannuation tax concessions at the top will not reduce dependence on the Age Pension and they produce the grossly unfair outcome that those who least need public support for a comfortable retirement receive the most, while those need the most support receive the least. Superannuation reform should restore fairness to the retirement system and ensure that the commonwealth is not forgoing much needed revenues from sources that are more than able to sustain a much higher level of contribution to the public good.

Rather than cut vital services, this Bill should be based on a sustainable revenue base by closing these loopholes.

Business groups have consistently called for the corporate tax rate to be cut. But neither the statutory rate (30%) nor the *actual* rate corporations pay (23%)<sup>15</sup> is high internationally, for comparable countries.<sup>16</sup>

In reality, Australia, like the rest of the OECD is competing against countries with zero or negligible company tax rates. It is the widespread profit shifting by large multi-national corporations to tax havens such as Panama that has been recognised by the OECD as the major issue.

Inter-country double taxation agreements mean that in many instances corporate tax cuts in Australia will simply flow to other governments. For example, US multinationals operating in Australia with a reduced corporate tax rate of 25% would none the less be required to pay a 10% 'top-up' to the US government which has 35% corporate tax rate, rather than the current 5% top-up paid. In effect, our corporate tax cut is simply a transfer of money earned in Australia to the US Treasury, to pay for US public services rather than desperately needed services here.

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<sup>13</sup> The Australia Institute, Matt Grudnoff 2015 Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 per cent and drive up house prices, April

<sup>14</sup> The Australia Institute, Top Gears p. 5

<sup>15</sup> Adapted from Table 1, Markle, KS and Shakelford, DA (2011) Cross-Country Comparisons of Corporate Income T axes (NBER: Cambridge, MA).

<sup>16</sup> ACTU Submission to the Government's consultation on Tax White Paper 1 June 2015 p10 Table 1, and Table 1 in Markle, KS and Shakelford, DA (2011) Cross-Country Comparisons of Corporate Income T axes (NBER: Cambridge, MA)

The loopholes in the current tax system allow many corporations to pay little or no tax. According to the Australian Tax Office (ATO) one in five of Australian owned private companies with over \$100 million in revenue paid NO tax last year.<sup>17</sup> Of the top 200 ASX listed companies, 57% use subsidiaries in tax havens to avoid paying tax in Australia and nearly one third have an average effective tax rate of 10% or less.

If just the ASX 200 companies paid the full rate of company tax, it is estimated that the government would gain \$8.4 billion per year.<sup>18</sup> Over the past 10 years, the government has lost \$80b through companies' complex tax-minimisation arrangements- the same amount as it has said it will cut from health and education over the next 10 years.<sup>19</sup>

Despite constant calls from business groups to lower corporate tax rates, there is no credible evidence that this is effective in creating more jobs or economic growth. Recent PBO modelling demonstrated the economic benefits of the government's proposed \$51b corporate tax handout would be modest and take many years to arrive.<sup>20</sup>

The job creation argument assumes that companies will channel profits generated by lower corporate tax rates into new capital investment that requires additional labour to generate productive outputs. However, experience overseas corresponds with a recent study in Australia, which has shown that corporate tax cuts would not alter the investment or employment decisions of the top 15 ASX companies.<sup>21</sup>

US Treasury research found that corporate tax cuts do not generate sufficient growth to 'pay for themselves, with the Reagan tax cuts costing almost 3% of GDP. Rather than boosting jobs, corporate tax cuts in fact boost inequality further.

Nor is there any evidence corporate tax cuts will increase foreign investment, particularly of the sort which increases productive capacity and flows in to improved living standards in Australia. Analysis for instance by the US Congressional research Service shows no credible evidence that international investment decisions are influenced by corporate tax rates.<sup>22</sup> Investment decisions are much more influenced by the quality of infrastructure, the skills of the labour force, links with researchers and innovators and political and legal stability. It is more than a little ironic that improving skills and infrastructure are made harder by a refusal to acknowledge a revenue rather than spending fiscal challenge.

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<sup>17</sup> (<http://www.smh.com.au/federal-politics/political-news/one-in-five-large-private-companies-paid-no-tax-last-year-ato-20150923-gjsut6.html>, [http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/ca0cfcaf-ed36-4f85-a5f8-;Testimony of Michael Cranston, Deputy Commissioner of ATO Hearing of Senate Economics Legislation Committee Inquiry into Tax and Super Amendment \(to exempt Australian private companies with over \\$100 million in income from publication of tax paid\).p17\).81953dccc1c6/toc\\_pdf/Economics%20Legislation%20Committee 2015 09 22 3822 Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/ca0cfcaf-ed36-4f85-a5f8-81953dccc1c6/0003%22](http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/ca0cfcaf-ed36-4f85-a5f8-;Testimony%20of%20Michael%20Cranston,%20Deputy%20Commissioner%20of%20ATO%20Hearing%20of%20Senate%20Economics%20Legislation%20Committee%20Inquiry%20into%20Tax%20and%20Super%20Amendment%20(to%20exempt%20Australian%20private%20companies%20with%20over%20$100%20million%20in%20income%20from%20publication%20of%20tax%20paid).p17).81953dccc1c6/toc_pdf/Economics%20Legislation%20Committee%202015%2009%2022%203822%20Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/ca0cfcaf-ed36-4f85-a5f8-81953dccc1c6/0003%22))

<sup>18</sup> Tax Justice Network, United Voice ,2013 ,[Who Pays for Our Common Wealth? Tax Practices of the ASX 200](#))

<sup>19</sup> 2014-15 Budget Papers.

<sup>21</sup> **The Australia institute, Cutting the Company Tax Rate: Why Would You? , Dave Richardson, 30 November 2015**

<sup>22</sup> Gravelle JG (2013) Tax havens: International Tax Avoidance and Evasion, CRS Report for Congress No R40623,23

## OMNIBUS MEASURES

Comments on the specific measures in the Budget Savings (Omnibus Bill) 2016 are below. However we note that the extremely short timeframe of less than one week is hardly appropriate for genuine consideration of the proposed measures. To this end, we have highlighted five key measures, ARENA funding, the removal of the Clean Energy Supplement, social security and paid parental leave and the R&D tax incentive.

### ARENA funding

The Abbott Coalition Government made its approach to renewable energy perfectly clear upon coming to power. After Treasurer Joe Hockey declared renewable wind towers were “eyesores”, Prime Minister Abbott declared coal was Australia’s energy future and the Government announced a policy to weaken the Large Scale Renewable Energy Target and abolish both the Clean Energy Finance Corporation and the Australian Renewable Energy Agency, it should be no surprise that investment in large scale renewable energy in Australia fell by 88% in the first year of Coalition Government.<sup>23</sup> During their tenure, the Coalition has presided over almost 3,000 renewable energy job losses<sup>24</sup>, at a time when renewable energy jobs are booming in the rest of the world.

Australia’s renewable energy industry has massive employment and income generating potential, as well as playing a central role in tackling climate change. We have the highest average solar radiation per square metre of any inhabited continent in the world, and we are also one of the windiest places on earth. Added to this is our world class geothermal and wave-tidal resources and it is little wonder many claim Australia has the potential to be a renewable energy superpower. In addition, our renewable energy technology expertise is world class due to a long record of investment through agencies like CSIRO and our universities.

The renewables sector represents a huge growth opportunity for Australia, especially in terms of new, skilled, high value jobs creation. New renewable projects generate construction jobs during construction and ongoing operations and maintenance jobs once operational. Added to this are new opportunities for our advanced manufacturing sector in designing and producing renewables components – like solar panels, wind towers, carbon fibre turbines and monitoring networks. We have the potential to create the next generation of renewable technologies, discovering new and more efficient ways to generate, store and transport renewable energy and to export the products of this inventiveness and expertise all over the world.

For example, Heliostat SA is a company that was formed from a partnership between the CSIRO and former automotive component manufacturers in the South Australian car industry.<sup>25</sup> The company is now exporting components for solar renewable plants to Japan and other overseas markets and in the process, creating crucially needed new jobs in the state’s manufacturing sector. Likewise, we have huge opportunities to grow a strong and globally significant renewable energy and energy efficiency service sector, providing energy audits, renewable advice while creating new jobs and export income.

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<sup>23</sup> See: <http://www.smh.com.au/environment/climate-change/australias-largescale-renewable-investment-dives-in-2014-20150112-12mbis.html>

<sup>24</sup> ABS 4631.0: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/4631.0>

<sup>25</sup> For more on Heliostat SA, see: <http://www.heliostat.com.au/>

None of these opportunities would be possible without a world class renewable technology and innovation sector. ARENA is a crucial public institution in the innovation system that underpins Australia's renewable industry. Unlike the Clean Energy Finance Corporation (CEFC), ARENA focuses support to pre-commercial activities; technology development, refinement and demonstration, pre-commercialisation deployment, research and development and other activities intended to develop new renewable energy technologies and demonstrate these technologies so they can be adopted commercially. As such, the support ARENA provides is extremely unlikely to be directly replaced by the private sector in the absence of ARENA as a partner. In addition, because ARENA provides early stage support (compared to the CEFC or private finance), its investments are social in nature, with the broader public and economy being the main beneficiary rather than private actors. As a result, it is appropriate that public finance be used for the activities ARENA is engaged in as private finance would simply fail to provide the necessary or optimal levels of support.

The current Bill cuts over \$1 billion from allocated ARENA funding to 2019-20. This effectively ceases Arena's role as a significant source of support for pre-commercial renewable energy technologies and projects, leaving little over \$300 million in available project capital left in ARENA.

The ACTU sees this as a poor source for cuts designed to structurally improve the government's finances. Not only is the expenditure a worthwhile investment in Australia's ability to tackle climate change as well as an investment in future high technology industries and jobs, but it is a once off saving that does nothing to improve the structural or long term state of public finances.

The ACTU strongly recommends that rather than proceed with this measure, the Government should reverse its decision to provide large corporate tax cuts to the largest corporations. Even if we put tax cuts for small business to one side, the Government's corporate tax cuts will cost the budget \$4.4 billion to 2019-20, or over 4 times the amount that the Government is planning to save from effectively ending ARENA.<sup>26</sup> In addition, the scrapping of the corporate tax cuts would structurally improve the budget as the cost of these tax cuts increases every year into the future.

In our view, this measure to cut \$1 billion of ARENA resourcing represents a massive perversion of priorities and will not serve to fundamentally improve public finances but will serve to further weaken a crucially important new growth industry, putting in jeopardy countless jobs and our ability to transition to a low carbon economy. We strongly call on the Government to re-think this measure and on all non-government MP's to block its passage through the Parliament.

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<sup>26</sup> Based on Parliamentary Budget Office costings.

## R&D Tax incentive

The ACTU is a strong supporter of industry Research and Development (R&D) as a central way to boost competitiveness, productivity and ultimately the economic outcomes that matter for working Australians; jobs, wages, and conditions. However, we have also been very keen to ensure that policies to support R&D are adequate, fit for purpose and as effective as possible. That is why in our tax policy report; TAX REFORM FOR A FAIR SOCIETY AND STRONG ECONOMY, we noted:

“The R&D tax incentive is designed to promote business R&D activity. It is broadly good policy that supports around 10,000 businesses in their R&D activities to improve products, processes and competitiveness. But there is significant evidence that at the very top end this incentive is ineffective in contributing to the total amount of R&D that occurs in Australia and that, rather than being used to support additional R&D, it is used as a tax-minimisation strategy by large multinational companies. For example, it has previously been reported that some mining companies were claiming 90 per cent of their costs as R&D.”<sup>27</sup>

The measure being proposed cuts R&D support across the board by 1.5%, regardless of firm size or likelihood of improper use of the incentive. However, evidence to date has indicated that it is the largest corporations which are more likely to inappropriately use the incentive while SME businesses need more R&D support if anything.

This measure appears to have been designed with the sole purpose of saving the budget money, rather than the purpose of improving the effectiveness and efficiency of the incentive. This is especially disappointing as the Government has commissioned a review into the R&D tax incentive.

This review had the explicit task:

“to identify opportunities to improve the effectiveness and integrity of the R&D Tax Incentive, including by sharpening its focus on encouraging additional R&D expenditure”.<sup>28</sup>

This review was scheduled to report to government in April 2016, but as of 6 September, this report has still not been made public. While this review has not been released by the Government, it also appears the government hasn't availed itself of the review's likely advice, given the bluntness of the proposed measure. More broadly, it is clear that the process surrounding the development of this measure has been extremely poor, with interested and affected stakeholders engaging in a review process, only to have the Government announce a reform entirely divorced from the consultation and review process. This is made clear by the fact the proposed reform neither “sharpens the focus” of the incentive, nor can its effect reasonably be expected to be “encouraging additional R&D expenditure”. Indeed, the only effect of the proposed measure is to decrease the amount of genuine R&D undertaken by industry, while not explicitly tackling incentives to inappropriately use the incentive to minimise tax. For a Prime Minister that is big on innovation – it is becoming a one word slogan.

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<sup>27</sup> TAX REFORM FOR A FAIR SOCIETY AND STRONG ECONOMY, page 21. ACTU March, 2016. Full report available at: <http://www.actu.org.au/media/886501/tax-reform-for-a-fairer-society-and-stronger-economy.pdf>

<sup>28</sup> Review of the R&D tax incentive, available at: <https://www.business.gov.au/assistance/research-and-development-tax-incentive/review-of-the-randd-tax-incentive>

While the ACTU is broadly supportive of reform to the R&D tax incentive, on balance we view the proposed reform as a wasted opportunity that does nothing but cut R&D support across the board, rather than improve its effectiveness through targeted reforms. This disappointing outcome is not surprising given the far from ideal process around reforming the R&D tax incentive, and should serve as a reminder of the importance of good, consultative, transparent process for this and future governments.

We recommend the Government delay this measure and immediately release the R&D tax incentive review. In addition, we strongly urge the Government to begin a process of consultation about reform options with industry, unions and other stakeholders based on the review's findings and recommendations. Reform requires careful consideration of incentives, likely and unintended effects and consequences, on stakeholders and the broader economy, as well as stakeholder views. It seems all the Government considered when designing this measure was budgetary impacts. There is no evidence the Government has given any consideration to these broader aspects of reform or the actual functioning of the R&D tax incentive; something that must be done if reform is to be true to its name and result in improved outcomes for Australians.

## Closing carbon tax compensation to new welfare recipients

The Clean Energy Supplement (CES) was introduced by the Gillard Labor Government in order to improve the support provided through our targeted welfare system. Its initial justification was to compensate for expected price rises due to the implementation of a carbon price. Many in the community, including the ACTU, saw this as recognition that the adequacy of welfare payments has been falling for a sustained period and as an attempt to partially correct that fact. This view of the CES is reinforced by the fact that; upon its implementation it was the first increase to many affected payments, including Newstart, since 1994.

While this measure is designed to be partially grandfathered,<sup>29</sup> it still represents a decrease in the nominal and real value of welfare payments. This is an abhorrent, misguided and unjust source for cuts to the budget, especially since many of the payments affected are widely viewed as far from sufficient to provide dignity to recipients. For example, the top level of Newstart support for a single person is \$37.40 per day. Anyone claiming that this, which is equivalent to less than half the minimum wage, is sufficient to pay for food, accommodation, clothing, transport, let alone the other necessities a person requires to look for and secure employment, is either totally ignorant or being deliberately deceptive.<sup>30</sup>

The ACTU finds it abhorrent that the Government thinks it is sound or fair policy to attempt to balance its own budget on the back of the most vulnerable members of society. The base unfairness of this measure and this approach is made crystal clear when we consider the 2% tax break the Government plans to provide those on incomes of over \$180,000 per year (or the top 3% of earners in Australia), through the scrapping of the 'deficit repair levy'.

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<sup>29</sup> Although it is worth noting recipients and concession card holders who first receive the energy supplement on or after 20 September 2016 will have their payments decreased by 19 March 2017.

<sup>30</sup> It is worth seeing the letter of ACOSS and other to party leaders on this proposal, available at: <http://www.abc.net.au/news/2016-08-22/acoss-appeals-for-federal-government-to-keep-carbon-tax-payment/7771458>

This high income tax break is projected to cost the budget \$4.2 billion to 2019-20,<sup>31</sup> almost 3.2 times the saving that the scrapping of the clean energy supplement will provide. Put another way, it would be far more beneficial for the budget were the government to scrap the high income tax break and keep the CES in place (a net improvement of \$2.9 billion to 2019-20), than their planned course of action of providing a high income tax break and scrapping the CES (a net deterioration of -\$2.9 billion to 2019-20). Indeed, the government's planned approach leaves the budget in a worse position, leaves struggling welfare recipients in a worse position, while the only people who benefit are those earning over \$180,000 per year. We cannot ignore the fact that this tax break is by design and intention going to the most well off in society, while the scrapping of the CES is by design and intention hurting the most vulnerable members of society. There is no credible argument that a decision that stands so in opposition to the values of a progressive tax system would have any benefit to either the finances or wellbeing of the Australian people.

This is clearly a case where fairness and fiscal responsibility sit on the same side of an issue, and unfairness and fiscal profligacy on the other.

The ACTU strongly calls on the Government to reverse this measure, leave the CES in place and scrap the \$4.2 billion high income tax cut instead. In addition, we call on all non-Government MPs to block this measure in Parliament. It is the fair, right and fiscally responsible thing to do.

## Social Security and Paid Parental Leave

The Bill contains several measures that remove or reduce Government payments for low income families, carers and working parents. These measures include:

- Removing provisions that enable payment of carer allowance for a disabled child, or for an adult where the disability affecting the adult is due to an acute onset, to be backdated by up to 12 weeks before the day on which the person made a claim;
- Freezing the higher income free area for family tax benefit (FTB) Part A and the primary earner income limit for FTB Part B for a further three years. The thresholds have been frozen since 2009 and under the proposed amendments, will not be increased until 1 July 2020;
- Freezing the maximum income threshold for recipients of PPL until 30 June 2020; and
- Reducing or suspending social security payments for employees that are receiving parental leave pay or dad and partner pay. Currently, PLP and DAPP recipients can receive the full rate of an income support payment at the same time as PLP or DAPP.

In our view it is wholly inappropriate for the Government to seek to improve the budget bottom line by targeting the most vulnerable members of our society. Wealth in Australia is highly concentrated, with the top 10% of wealth holders owning 45% of all wealth.<sup>32</sup> Continuing this policy will exacerbate the growing divide between rich and poor and increase rates of poverty and homelessness among low-income families.

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<sup>31</sup> Estimates from the Parliamentary Budget Office.

<sup>32</sup> ACOSS, *Inequality in Australia – A nation divided*, 2015

The ACTU is also opposed to any reduction in paid parental leave or carers payments. Instead, the Government should implement recommendations made by the recent Senate inquiry into Economic Security for Women in Retirement to extend the period of paid parental leave to 26 weeks, ensure that superannuation is paid on the Commonwealth Scheme and examine mechanisms for improving the incomes of carers.

## EDUCATION RELATED MEASURES

The Government is seeking to achieve a \$79.4 million saving to 2019-20 through several measures that will dis-incentivise education. These are:

- Minimum repayment income for HELP debts – total saving equals \$3.3 million;
- Indexation of higher education support amounts – total saving equals \$54.6 million;
- Removal of HECS HELP benefit – total saving equals \$21.5 million.

The ACTU looks very poorly on any attempt to improve public finances by sacrificing the future of young Australians, and this is exactly what any measure that will result in fewer students and poorer student outcomes does. In addition, measures that discourage study, as all of these measures do, not only hurt the future prosperity of affected students (and potential students), they hurt the functioning, efficiency and competitiveness of the entire economy and of society more broadly. Once again, if we compare the size of these savings to the size of high income (\$4.2 billion) or corporate (\$4.4 billion) tax cuts, it is clear these measures are fiscally insignificant, but they are significant to students and potential students, especially to young people from disadvantaged backgrounds which over the long run will have a negative macro impact on communities and our economy.

The ACTU does not support these measures, as in our considered view, they represent an attack on access to affordable education (an attack largely directed at the less well off) and will serve to undermine the futures of current and potential students and the nation as a whole; all for an insignificant impact on the budget. We urge the government to drop these measures.

## OTHER MEASURES

We have discussed a total of 6 out of a total of 24 measures above. The 18 measures that remain to be discussed cover a raft of policy areas and involve varying degrees of complexity. Some have previously been released as part of budgets while others have not.

Due to limited resource and timing constraints, largely imposed on the ACTU and all other stakeholders by the unfortunately rushed process of consultation on this significant Bill (a process discussed further below), the ACTU has limited comment on a further 4 measures to the brief comments contained in the table below.

Measure	ACTU comment
Indexation of private health insurance thresholds	<p>The ACTU is concerned with the escalating costs of private health insurance and the value for money that patients are receiving. Over the past three years the average premium increase has been 5.59% (2016), 6.18% (2015) and 6.20% (2014).<sup>33</sup> This is significantly higher than CPI which was 1.7% in both 2015 and 2014. According to Professor Elizabeth Savage, the 2016 premium increase 'amounts to the average family paying about \$300 more a year for an average policy'.<sup>34</sup></p> <p>A review of the current rebate system is needed to ensure that both taxpayers and consumers are receiving value for money.</p>
Dental services	<p>The ACTU believes that Australians should have universal access to preventative and restorative dental care. Any changes that will result in a decrease in funding towards public dental scheme should not be supported.</p>
Interest charges to the debts of ex recipients of social security and family assistance payments	<p>The ACTU opposes any measure that creates extra hardship for lower income people and students, denying universal access to education, as this measure does.</p>
<p>Social Welfare Debt recovery</p> <p>Other Welfare measures</p>	<p>The ACTU opposes any measure that creates extra hardship for lower income people and students, denying universal access to education, as this measure does.</p> <p>The ACTU opposes any of the measures that affect either the quantum of or eligibility for welfare or is targeted primarily at welfare recipients.</p>

The ACTU and other stakeholders have had a total of 4 working days to consider these 24 measures, consult with affiliates, and draft a submission. This represents an extremely limited scope for detailed and informed analysis, let alone consultation informed by such analysis, which most of these measures call for if decisions are to be made carefully, with full information and wisely. Unfortunately, the process implemented by the Government with respect to the Omnibus savings Bill lacks the characteristics of any good process. As such, this submission cannot provide informed views on the remaining 18 measures due to time and resource constraints imposed by the government through this flawed process.

<sup>33</sup> <http://www.health.gov.au/internet/main/publishing.nsf/Content/privatehealth-average-premium-round>

<sup>34</sup> <https://theconversation.com/is-a-5-6-increase-in-private-health-insurance-premiums-justified-55435>

It is our strong recommendation and request that the Government delay the passage of this Bill so a proper and full stakeholder consultation process can occur. Neither are Australia's public finances in such a grave state that a delay would imply negative economic consequences on the nation, nor is the Government facing the end of a parliamentary term and is constrained by an impending election. The Government should put to bed this notion of a budget emergency that precludes proper process being implemented when considering long lasting and significant changes to policy frameworks that determine the lives, futures and prosperity of all Australians, and should as it promised act and speak to the Australian people like adults; which includes allowing transparency, proper consultation and compromise in government.

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