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good works

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Submission to the Senate Standing Committee on Community Affairs

Inquiry into the Social Services Legislation Amendment (Maintaining Income Thresholds) Bill 2018

August 2018

Introduction

The St Vincent de Paul Society National Council (the Society) welcomes the opportunity to provide feedback on the *Social Services Legislation Amendment (Maintaining Income Thresholds) Bill 2018* (the Bill).

The purpose of this Bill is to achieve budgetary savings by pausing indexation to family payments and associated income thresholds, in addition to imposing indexation freezes on Parental Leave Pay. Specifically, the Bill seeks to:

- pause indexation of the Family Tax Benefit Part A (FTB-A) and Family Tax Benefit Part B (FTB-B) end-of-year supplements;
- extend the indexation pause of the FTB-A family higher income free area and the FTB-B primary earner income limit; and
- extend the indexation pause of the Parental Leave Pay (PLP) and Dad and Partner Pay (DAPP) income limits.

The pauses to indexation would apply until 2021, yielding a combined savings of approximately $321.9 million over four years.[1]

As an organisation committed to social justice and overcoming the causes of poverty and inequality, we recommend that this Bill be rejected. Our family payments system performs two vital social and economic functions – helping to prevent child poverty, and treating low- and middle-income families with children fairly by taking into account the costs of raising children in the tax-transfer system. This Bill, however, undermines these crucial functions. It is being proposed in a context where the family payments system has been steadily eroded over the past decade – a period that has coincided with an increase in the rates of children living in poverty in Australia.[2]

Despite being one of the wealthiest countries in the world, around 17.4 per cent (731,300) of all children in Australia are living in poverty, an increase of 2 percentage points over the past decade.[2] The rates of poverty are highest among single parent households, with more than one in three (40.6 per cent) of children in lone-parent families living below the poverty line. Since 2012, the poverty rate for children in lone parent families has gone up from 36.8 to 40.6 per cent.[2]

In a nation that is one of the wealthiest in the world, the persistence and growth of child poverty is reprehensible. Despite the relatively high levels of child poverty, recent budgets have targeted family payments for some of the largest savings in the social security portfolio, with the cumulative effect resulting in $12 billion being slashed from the family payments system between 2009 and 2016.[3] The upshot of such funding cuts is that families are being forced to cover higher living costs with less.

This Bill further cuts away into the family payments system. Our deepest concerns relate to the indexation pause on the FTB-A and FTB-B end-of-year supplements – a measure that will have the greatest adverse effect on low-income families. Instead of further funding cuts, we believe the family payments system needs to be strengthened to ensure all families are adequately supported to raise children and maintain an acceptable standard of living. Furthermore, any proposed changes need to be informed by careful modelling of the distributional impacts and complex interactions with other aspects of the tax-transfer system, including the resultant effective marginal tax rates. We also oppose any weakening of the Paid Parental Leave scheme, which is a key part of a wider strategy to support women's equality in paid workforce participation and gender equity in lifetime earnings.

About the St Vincent de Paul Society

The St Vincent de Paul Society (the Society) is a respected lay Catholic charitable organisation operating in 149 countries around the world. Our work in Australia covers every state and territory, and is carried out by more than 58,000 members, volunteers and employees. Our people are deeply committed to social assistance and social justice, and our mission is to provide help for those who are marginalised by structures of exclusion and injustice. Our programs assist millions of people each year, including people living with mental illness, people who are homeless and insecurely housed, migrants and refugees, women and children fleeing violence, and people experiencing poverty.

Response to provisions in the Bill

Non-indexation of FTB Part A and FTB Part B supplements

The Bill proposes that indexation is frozen for the FTB-A and FTB-B supplements from 2018 to 2021.

Indexation in the family assistance system is the automatic adjustment of certain amounts or limits in line with movements in prices, as measured by the Consumer Price Index (CPI). The affected amounts are usually indexed once a year to maintain their real value over time. In 2009, the indexation of family payments was switched from the wages index to the lower prices index, and between 2011 and 2016 the end-of-year supplements were not indexed at all.

At the same time, the costs of raising children have rapidly risen over the past two decades, with recent research undertaken by the University of New South Wales indicating the increase in costs significantly exceed the percentage cost increases associated with CPI.[4] The researchers, who adopted a robust Budget Standards methodology, found the largest single contribution to the overall family budget in all cases was housing costs, however increases in expenses also stem from rising energy costs, education expenses, transport and other ongoing household expenses.[4] The Society's own research from Victoria has documented the challenges low-income families face in meeting the substantial and growing costs associated with education.[5] The UNSW research also suggests that current family payments fall well below what is required for children in disadvantaged households to achieve a reasonable level of well-being.[4]

The non-indexation of the FTB end-of-year supplements will have the largest proportionate impact on low-income families receiving the maximum rate of payment. Currently, to be eligible for the FTB-A supplement, a family's combined adjusted taxable income must be $80,000 or less. The FTB-B supplement is only available for single parents and couples where the primary earner earns up to $100,000 a year.

According to the Department of Social Security, the end-of-year FTB-A supplement was due to rise from $737.30 to $751.90 on 1 July 2018, while the FTB-B supplement was due to rise from $357.70 to $365 on 1 July 2018.[6] While on the surface the amounts of foregone income may appear modest, they are not trivial for families who are struggling to provide adequately for their children. In this situation, every dollar counts. Furthermore, these cuts come on the back of sustained cuts to Family Tax Benefit payments and parenting payments in recent years. The Australian Council of Social Services summed up the situation well when they recently stated:

> Family Tax Benefits supplement paid work, raising the disposable incomes of low-paid households. However, in recent years governments have reduced these payments (cutting $12 billion from Family Tax Benefits alone between 2009 and 2016), leaving families with low

> incomes more reliant on wage increases. As a result, the real disposable incomes of low paid families have declined relative to those without children.[3]

It is not surprising therefore to find that rates of child poverty remain unacceptably high and since 2011 appear to be rising, especially for children in single-parent families.[2,3]

At a time when the Government is proposing tax cuts to corporations and wealthy Australians, this Bill would reduce payments to families on the lowest incomes. It is imperative the Senate rejects these further cuts to family payments. The impacts would be particularly severe on sole parents with low incomes, who have already experienced substantial cuts to various income support payments.

Freezing the upper-income thresholds

Our strongest objections to the Bill relate to provisions that affect families on the lowest incomes. However, we also question the basis for freezing the upper-income thresholds on various payments – a measure that would have the largest impact on middle-income families, but which nevertheless undermines other important policy objectives. We do not believe the Government has provided a compelling and coherent rationale for freezing the upper-income thresholds for family tax benefit payments, Paid Parental Leave (PPL) and Dad and Partner Pay (DaPP). Nor has there been modelling to ascertain how these measures would interact with other aspects of the tax-transfer system, including the impacts on effective marginal tax rates (EMTRs) and workforce participation incentives. The latter are particularly important in terms of reducing disincentives to workforce participation, with the EMTRs resulting from existing taper rates and income thresholds being unacceptably high and constituting "a major impediment to participation in the labour force for low- to medium-income mothers in medium-income households, potentially affecting a very large group of women".[7]

Although families affected by the upper-threshold freeze are not on low incomes, we note that some of these thresholds have been frozen for as long as ten years. Accordingly, in a context where the costs of living have risen substantially, the value of the thresholds have diminished over time, thereby shrinking the portion of families receiving assistance and increasing their financial pressures. This raises concerns about horizontal equity among families with and without children and risks undercutting political support for assisting families further down the income scale.[8]

We also question the freeze on income thresholds for families accessing PPL and DaPP. A key issue is the inconsistency of these proposed measures with wider policy goals, such as increasing female workforce participation and reducing the pronounced gender pay gap in lifetime earnings. Such measures also appear to conflict with the Government's rationale for recent personal income tax cuts, which were ostensibly designed to alleviate financial pressures for households and strengthen labour force participation. Moreover, in considering such issues and their distributional impacts, it is important to take a life course perspective. Australia lags well-behind OECD countries in terms of paid parental leave, and we still have among the lowest levels of labour force participation for mothers in the OECD.[7] The measures proposed in this Bill will merely reinforce these problems, compounding the pronounced gender disparity in lifetime earnings and the comparatively high rates of poverty among older women. Freezing PPL and DaPP will ultimately reduce access to these essential payments and weaken the integrity of the Government's paid parental leave scheme.

Accordingly, we recommend that the Committee reject the proposal to freeze upper-income thresholds, and that the Bill be opposed in its entirety.

REFERENCES

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