

Social Services Legislation Amendment (Ending Carbon Tax Compensation) Bill 2017

Submission to Community Affairs
Legislation Committee

14 July 2017



Introduction

The Australian Council of Social Service (ACOSS) welcomes the opportunity to provide comment on the Social Services Legislation Amendment (Ending Carbon Tax Compensation) Bill 2017.

ACOSS is a national voice in support of people affected by poverty, disadvantage and inequality and the peak body for community services and the not-for-profit sector.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities have the opportunities and resources they need to participate fully in social and economic life.

Summary

ACOSS strongly opposes the government's proposal to abolish the Energy Supplement, which would apply to new recipients of income support and to anyone who commenced receiving a payment after 20 September 2016.

Cutting the Energy Supplement will remove almost \$1 billion from our social security system and will cut payments to people living on a completely inadequate \$31 per day. Single parents, pensioners and carers will lose between \$4 and \$7 per week.

The government's justification for cutting the Energy Supplement is based on removal of the carbon price. However, people on higher incomes continue to benefit from a tax cut to compensate for the carbon price and energy prices have increased above CPI since the carbon price's removal. Consequently, people on the lowest incomes will be meeting higher energy costs with less if the Energy Supplement is cut.

Australia has almost three million people living in poverty, 730,000 of whom are children.⁴ To prevent poverty from rising, Parliament must retain the Energy Supplement and reject the proposal to cut the incomes of people who have the least.

⁴ ACOSS & SPRC (2016) 'Poverty in Australia 2016'. Available: <http://www.acoss.org.au/wp-content/uploads/2016/10/Poverty-in-Australia-2016.pdf>

Recommendation

We recommend the Committee oppose the Social Services Legislation Amendment (Ending Carbon Tax Compensation) Bill 2017.

Discussion

The Energy Supplement was introduced in 2012 to compensate for the price on carbon and has been paid fortnightly since March 2013. The Energy Supplement is paid to people receiving an income support payment and is paid at 100 different rates depending on the base payment. It ranges between \$8 and \$14 per fortnight.

In the 2016 budget, the government announced it would cease payment of the Energy Supplement to new income support recipients. This proposal has been rejected by Parliament multiple times.⁵ This Bill represents the government's latest attempt to cut the Energy Supplement.

If government cuts the Energy Supplement, income support payments to people on low incomes will be cut by \$933m over three years. This will affect 1.7 million people over the forward estimates including Age Pensioners, Disability Support Pensioners, Carer Payment recipients, Parenting Payment recipients, and people who receive Newstart or Youth Allowance.⁶

ACOSS strongly opposes the removal of the Energy Supplement to new income support recipients. Income support payments are already below the poverty line. Cutting the Energy Supplement will further reduce these already inadequate payments.

(a) Newstart and Youth Allowance

The introduction of the Energy Supplement was the first real increase to Newstart payments in over 20 years. The proposal to remove the Energy Supplement will cut the \$267 per week Newstart Allowance by \$4.40 per week.

If the Energy Supplement is abolished, Newstart will be lower than it would have been had there been no compensation for the carbon price introduced in 2013.⁷ This is because when the Energy Supplement was introduced, regular Consumer Price Index (CPI) indexation of Newstart was adjusted to account for the supplement, which was paid to cover the increased costs associated with the price on carbon. Removing the supplement effectively eats into the

⁵ Budget Savings (Omnibus) Bill 2016; Social Services Legislation Amendment (Omnibus Savings and Child Care Reform) Bill 2017

⁶ Australian Government Department of Social Services (2016) 'Social Services Legislation Amendment (Omnibus Savings and Child Care Reform) Bill 2017', Senate Community Affairs Legislation Committee Debates, Thursday 9 March 2017. Available: http://parlinfo.aph.gov.au/parlInfo/download/committees/commsen/a133b4bc-570d-4cc8-8e78-5d08ffbc3f0d/toc_pdf/Community%20Affairs%20Legislation%20Committee_2017_03_09_4833_Official.pdf;fileType=application%2Fpdf#search=%22committees/commsen/a133b4bc-570d-4cc8-8e78-5d08ffbc3f0d/0000%22 p.63

⁷ David Plunkett (2016) 'Malice or Misunderstanding? Government's Carbon Price Under-Compensation' <http://www.austaxpolicy.com/malice-or-misunderstanding-governments-carbon-price-under-compensation/>

base rate of payment, leaving the payment lower than it would have been had regular indexation taken place.

Newstart and Youth Allowance recipients will be the largest cohort affected by the removal of the Energy Supplement, despite receiving the lowest rates of payment. Over three years to 2020, 473,000 Newstart recipients and 343,000 Youth Allowance recipients are expected to receive lower payments because of the cut to the Energy Supplement.⁸

(b) Parenting payments

If the Energy Supplement is abolished, a single parent receiving Parenting Payment Single will lose \$6 per week.

Single parents have already lost the Energy Supplement tied to the Family Tax Benefit, which was cut in the revised Budget Savings (Omnibus) Bill 2016. A single parent with one child under four years is now over \$100 a year worse off due to this cut. If this household lost the Energy Supplement tied to receiving Parenting Payment Single, they will lose another \$312 per annum.

Single parents receiving Parenting Payment Single will benefit from the one-off Energy Assistance Payment of \$75 to be paid this year. However, they will lose more than four times this amount if the Energy Supplement is no longer paid.

(c) Pension and Carer payment recipients

If the Energy Supplement is abolished, a single pensioner will lose \$7.05 per week and a household with people receiving Carer Payment and the Disability Support Pension will lose \$10.60 per week.

Many pensioners without other income or limited assets live below the poverty line. There are generally limited options to increase the rate of income.

The latest ACOSS Poverty Report found the incomes of Carer Payment recipients, Disability Support Pensioners and Age Pensioners are between \$118 and \$214 per week below the poverty line after housing costs are taken into account.⁹ Pensioners who rent are particularly disadvantaged because of the lack of affordable and accessible housing. These households, particularly those with no other income, will be greatly disadvantaged if they lose the Energy Supplement.

Pensioners will also benefit from the one-off energy payment of between \$75 and \$125 per household to be paid this year. However, they will be much worse off if the Energy Supplement is abolished, losing almost five times that amount.

⁸ Australian Government Department of Social Services (2016) above

⁹ ACOSS & SPRC (2016), above n 4, p. 29

(d) Existing recipients affected

Unlike the original legislation, this Bill will cut the Energy Supplement from existing recipients of income support.

If the Energy Supplement is abolished, people who commenced receiving a payment from 20 September 2016 will lose the Energy Supplement from 20 September 2017, even if they have continuously received a payment.

The Department of Social Services estimates that around 650,000 people would be worse off because of the denial of grandfathering to this group.

This policy will create a two-tiered system of income support payments: those for people who started receiving a payment prior to 20 September 2016; and those for people whose payments started afterwards. This will deepen inequity in our income support system as two people in the same circumstances will receive different rates of payment. It will also add further complexity to an already complicated income support system.

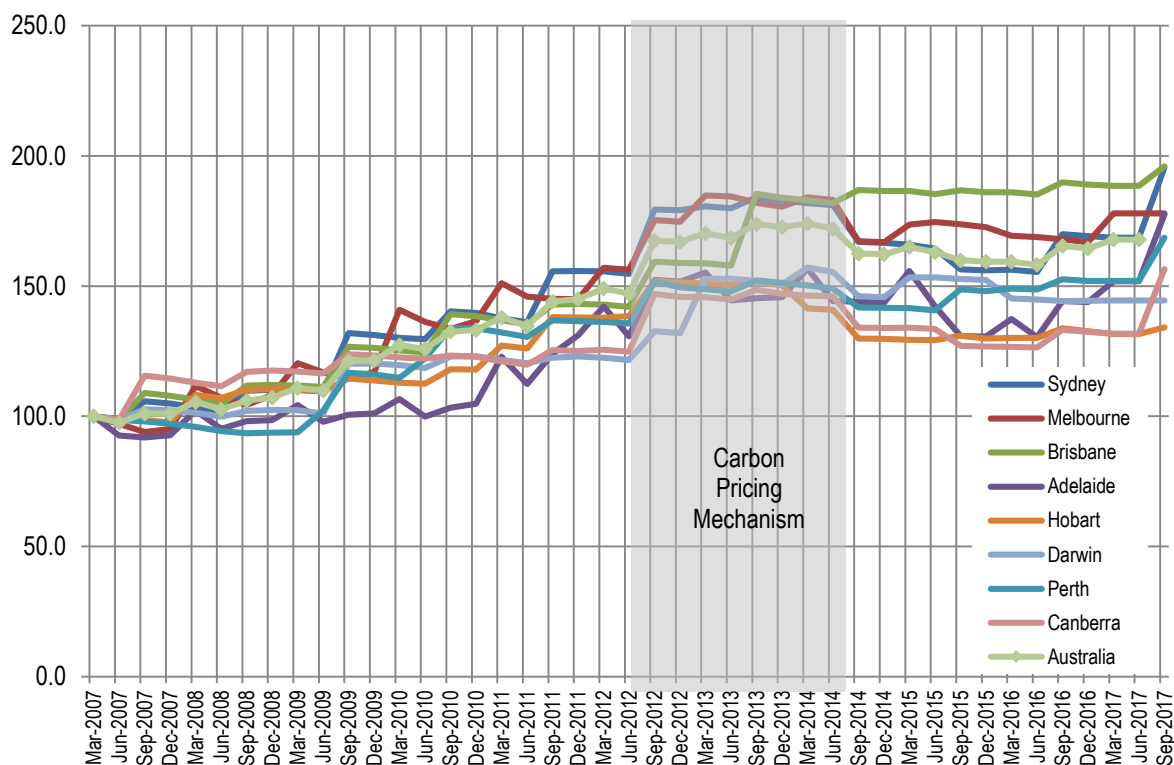
(e) Removing the Energy Supplement is unjustified and inequitable

The government's justification for removing the Energy Supplement – the removal of the price on carbon – is flawed. The Explanatory Memorandum states that because the carbon tax was repealed in July 2014, there is “no longer a need to provide this compensation”.¹⁰

However, electricity prices have increased since the removal of the carbon price, and are now higher than what they were when the carbon price was in place for most capital cities.

The table below is based on the Australian Bureau of Statistics' CPI data (Electricity Price Index) from the March Quarter of 2017, and projected electricity prices based on 1 July 2017 price increases announced by state and territory governments and/or energy retailers. The results are presented in real terms (i.e. adjusted for movements in the All Groups CPI in each capital city). It shows that electricity prices have never been higher in all cities except Hobart, Darwin and Melbourne.

¹⁰ Explanatory Memorandum (2017) http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r5880_ems_8e9a0b37-4c31-4664-8aff-95548a6021e8/upload_pdf/633408.pdf;fileType=application%2Fpdf p. 22



Source: ABS Cat No. 6401.0 Table 9 March 2017, and relevant websites of state and territory governments and/or energy retailers.

Further, the government is inconsistent in its treatment of carbon price compensation. Tax cuts that were introduced at the same time as the Energy Supplement to compensate for the carbon price continue. A person on a taxable income of \$60,000 is paying \$9.65 per week less in tax as a result of carbon price compensation, by way of tax cuts. In short, people on higher incomes will continue to be compensated, while people on very low incomes will not, revealing the gross inequity of this Bill, as it targets people with the least.