Committee Secretary
Select Committee on the Scrutiny of New Taxes
PO Box 6100
Parliament House
Canberra ACT 2600

16 November 2010

Dear Madam/Sir

Re: Inquiry into New Taxes

ACOSS is the national voice for the needs of people affected by poverty and inequality and the peak council for the community and social services sector in Australia. We are primarily concerned with families and individuals whose income is in the two lowest quintiles as reported by the Australian Bureau of Statistics. Through our members and the network of state and territory Councils of Social Service, we represent several thousand community and social service organisations.

Informed by this perspective, we would like to take the opportunity to comment briefly on aspects of the Henry Review's tax reform proposals and then in more depth on carbon pricing mechanisms.

Personal income tax and business tax reform

ACOSS broadly welcomed the proposals in the Henry Report to strengthen the personal income and business tax bases in order to remove economically harmful distortions from the tax system and to raise public revenue in a more equitable way. Our more detailed views on personal income tax reform are provided in the attached policy paper which was published prior to the completion of the Henry Review. Also attached is a brief summary of our response to the Report's key proposals in that area.

More specifically, we strongly support the introduction of a national mineral resources rent tax. This will be an important source of public revenue in future years, and is the most economically efficient way to charge businesses for the use of Australia's mineral resources. We support the Report's proposals to tax different forms of investment income more consistently by raising taxes on capital gains and lowering them on interest and rents, and to limit deductions for rental losses. Together with the proposed broadening of land taxes, this would reduce the current bias in the tax system favouring speculative investment in property and other assets that appreciate in value. It would also improve the equity of the tax treatment of different investments. It would be highly

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desirable to link these reforms with policies to improve tax and other incentives for new investment in affordable housing.

Further, the Report's proposals to tax superannuation contributions at marginal tax rates minus a uniform rebate would greatly improve the equity of the tax treatment of retirement savings. If the superannuation guarantee is raised to 12 per cent, then this proposal should be adjusted so that the tax is drawn from contributions forwarded to superannuation funds rather than from each tax-payer's disposable income. Otherwise, the combined effect of these policies would be to impose a very large increase in enforced saving for retirement.

On the other hand, the Report's proposals to 'flatten' the personal income tax scale would reduce the equity of the income tax system without any clear cut and substantial efficiency or simplification benefits. Unless such a policy was underpinned by robust 'base broadening' reforms, the overall distributional impact is likely to be regressive despite some gains at the bottom of the income distribution. A three tier tax scale is not much simpler to administer or understand than a five tier scale, though the proposed removal of the Low Income Tax Offset and the removal of social security payments from the tax system would improve transparency. The effect of changes to tax scales and offsets on work incentives would depend on which groups face higher and lower effective rates of tax as a result of the reform. One potential problem with the proposals is that on the face of it, many women in low paid jobs – a group whose employment participation is particularly sensitive to tax levels - would face higher effective tax rates if these changes were introduced.

Carbon Pricing Mechanisms

ACOSS is interested in the impacts of climate change and proposed responses to climate change because low income households are likely to be affected first and worst. They tend to live in situations more likely to be adversely affected and to be less well prepared to cope, adapt or move.

ACOSS is generally concerned to reduce financial burdens on low income households including through minimising the cost and maximising the affordability of essential goods and services such as energy. In the context of a proposed carbon pricing mechanism we note that energy prices, and particularly household retail electricity prices, are increasing at rates well beyond other prices and for several reasons including increasing prices for input fuels, network maintenance and augmentation and investments in generation including renewables. The previously modelled impacts of a carbon price suggested that resultant price increases for electricity and gas would be relatively small, especially when compared with increases resulting from other factors. The resultant price increases for other essential goods and services, including food, was also relatively minor.

On one hand, any increase in prices for essential goods and services intensifies the challenge of living on a low and or fixed income. On the other hand, a carbon pricing mechanism that is effective in reducing carbon pollution and that hastens cost-effective investments in clean energy is an absolutely critical response to climate change.

We are of the view that one potential negative short term impact of a carbon pricing mechanism is marginal increases in prices for essential goods and services. But this short term impact is justified by mid- and long-term beneficial impacts including mitigation of

and adaptation to climate change; the development of skills, employment and enterprise in the clean energy sector; lower electricity prices; and negligibly negative or absolutely positive improvements financial outcomes.

ACOSS will continue to work with our stakeholdes and partners and with policy makers in pursuit of responses to climate change that are reasonable, ambitious, effective, fair and inclusive. We have attached by way of information a statement of principles and high level recommendations.

ACOSS would be pleased to provide answers to any questions that the Committee may have as a result of this brief submission. We welcome the opportunity to contribute to its deliberations and offer our best wishes for the inquiry.

Yours sincerely
Australian Council of Social Service

Dr Cassandra Goldie
Chief Executive Officer

A price on carbon pollution – Principles and recommendations
Australian Council of Social Service (ACOSS)

Principles

ACOSS supports decisive and swift action by the Australian Government to reduce domestic greenhouse gas emissions from industry and households and to work with the international community to reduce global emissions.

ACOSS believes that low income households are particularly vulnerable to the impacts of climate change. Low income households and disadvantaged communities are likely to bear the impacts of climate change disproportionately.

ACOSS supports the introduction of a price on carbon pollution as one measure in a suite of measures designed to mitigate and adapt to the now inevitable reality of climate change.

A carbon price is intended to reduce the emission of greenhouse gases, in Australia and globally, in relative and absolute terms. A carbon price must facilitate the transition to a low carbon economy. A carbon price must prove to be effective, quickly and demonstrably.

The Government should acknowledge that the *intended* outcome of a carbon price and the *potential* outcome of measures such as mandatory targets for renewable energy are to increase prices for some essential goods and services, at least in relative terms and at least in the short term.

The Government should guarantee that no group of low income households need be financially worse off as a result of the introduction of a carbon price. Low income Australians should be better off overall as a result of policies to reduce greenhouse gas emissions including a carbon price.

The Government should fully compensate low income households for cost increases attributable to a carbon price. This compensation should be paid through the social security and taxation systems and take account of the particular characteristics of various types of households.

The Government should ensure that cost increases resulting from a carbon price do not adversely affect the capacity of government agencies, non-government organisations and others to deliver services in support of low income households and the community at large.

The Government should introduce measures to significantly increase the efficiency of energy use in households, especially low income households, with a view to maximising amenity from energy consumed, minimising consumption and energy bills, and reducing carbon pollution.

ACOSS believes that energy is an essential service and that a reliable and affordable supply of energy must be guaranteed as far as reasonably possible. The regulation of Australian energy markets should ensure fair and affordable household tariffs for basic levels of consumption.

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Recommendations

In the absence of current and detailed modelling of the impacts of a particular carbon price on households, decisions regarding targets and trajectories for emissions reductions, and detail of the actual price, ACOSS recommends that:

1. As a matter of urgency, commencing ahead of a carbon price, the Australian Government develop, fund and implement a program to retrofit housing stock to maximise thermal efficiency, minimise energy consumption, and ensure reasonable levels of amenity and comfort with a view to anticipated climate change. This program should focus initially on low income households in both the public and private rental markets.

2. As a matter of urgency, commencing ahead of a carbon price, the Australian Government develop, fund and implement a program for low income households to facilitate the upgrade of basic equipment and appliances including for example, hot water systems and refrigerators, to best practice performance standards, with a view to mitigating against energy price increases, minimising consumption, and reducing greenhouse gas emissions.

3. As a matter of urgency, commencing ahead of a carbon price, the Australian Government in conjunction with state and territory governments develop and implement nationally consistent regulatory frameworks to ensure that best practice minimum energy performance standards are introduced and enforced for equipment and appliances, for building and construction, and for related materials and processes.

4. The Australian Government make arrangements for low income households to be fully compensated for cost increases resulting from a carbon price, from commencement of a carbon price, in a manner that is not contrary to the intent of a carbon price, takes account of the particular characteristics of various types of households and their patterns of consumption of services and goods, and ensures that compensation is maintained in real terms over time.

5. The Australian Government ensure that community welfare services, however funded and delivered, are not adversely affected by the introduction of a carbon price but are supported through the transition to a low carbon future and enabled to contribute to emissions reduction.

6. The Australian Government, in conjunction with state and territory governments, develop policy and regulatory frameworks to ensure that arrangements for the sale of energy and energy services ensure fair and affordable household tariffs for at least basic levels of consumption.

7. The Australian Government, in conjunction with state and territory governments, develop policy, regulatory, program and financial frameworks to ensure that fair and appropriate concession, community service obligation and utility hardship programs are maintained under a carbon price.

8. With regard to recommendations 7 and 8 above, the Government should proceed to provide support and assistance to workers, communities and regions adversely affected by a carbon price and other transitionary responses to climate change, through a mechanism such as the previously proposed Climate Change Action Fund, and through transparent processes.

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