



## SPEECH

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Member for Rankin

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### **Tax :Laws Amendment (2007 Budget Measures) Bill 2007**

**Dr EMERSON** (Rankin) (12.27 pm)—The Tax Laws Amendment (2007 Budget Measures) Bill 2007 implements two measures that were announced in the recent budget. I am pleased to confirm that both of these measures will receive Labor's support. The bill amends the Income Tax Act to increase the dependent spouse offset from \$1,655 to \$2,100 from 1 July 2007. The separate net income at which the rebate is completely phased out will increase from \$6,901 to \$8,681. The full dependent spouse tax offset is available to a resident taxpayer who contributes to the maintenance of a low-income spouse, and, overwhelmingly, this is therefore an equity measure.

Taxpayers are eligible to claim a dependent spouse tax offset if they maintain a spouse, whether married or de facto, and the taxpayer claiming the offset or the spouse is not entitled to family tax benefit part B. The full offset is available only where the taxpayer has a spouse who earned very little or no income, as the tax offset is reduced by \$1 for every \$4 by which the dependent spouse's separate net income exceeds \$282. It all sounds complicated, but these thresholds are routinely

adjusted, because with the movement in the general price index, the value of these concessions would otherwise be eroded over time.

In relation to the dependent spouse offset, the income of the higher income earner in the household is not taken into account. The dependent spouse tax offset is currently indexed each year by reference to the consumer price index. The reason we are debating this legislation today is that those adjustments were announced in the budget, as they usually are, and we need some enabling legislation, which we have. Labor supports this proposal to provide more significant tax offset to taxpayers supporting a low-income spouse.

The second part to the first schedule of the bill amends the Medicare Levy Act 1986 to increase the Medicare levy low-income thresholds for individuals and families. Again, this is an equity measure. The dependent child or student component of the family threshold will also be increased. The increases are in line with movements in the consumer price index, and that is why we get this high level of specificity in the dollar amounts involved in moving from one threshold to another. The bill also increases the Medicare levy low-income threshold for pensioners below age pension age so that they do not have a Medicare levy liability where they do not have an income tax liability. We know there are lots of pensioners in Australia who are not age pensioners, so this legislation covers them too.

The bill increases the Medicare levy surcharge low-income threshold in line with movements in the consumer price index. The increases occur every year and are announced in the budget. The Medicare Levy Act provides that no Medicare levy is payable for low-income individuals and families where taxable income or

combined family taxable income does not exceed specified threshold amounts. The family income threshold increases by a set amount per child. The Medicare levy shades in at a rate of 10c in the dollar where the taxable income or combined family taxable income exceeds the threshold amount, otherwise you would have very steep effective marginal tax rates over, admittedly, a narrow income range. To avoid those very high effective marginal tax rates, the Medicare levy shades in at that rate of 10c in the dollar. Otherwise, if you move from one particular income level just below the threshold and went over it by \$1, you would get hit with the full Medicare levy. How important that is in practice would be a matter for empirical investigation, I guess. But it would not be pretty to be confronted with the situation where if you earn one extra dollar, you lose much more than that through being liable for the full Medicare levy. That is why it phases in at this rate of 10c in the dollar.

The bill increases the low-income thresholds for individuals and families for the 2006-07 income year in line with movements in the consumer price index. The individual threshold is to be increased from \$16,284 to \$16,740. The level of the family income threshold is to be increased from \$27,478 to \$28,247. The family income threshold is to be increased by a further \$2,594 instead of the previous amount of \$2,523 for each dependent child or student. The schedule also increases the threshold amount for pensioners below age pension age for the current financial year and subsequent income years. The increase ensures that these pensioners do not have a Medicare levy liability where they face no income tax liability.

The threshold amount for pensioners who are under age pension age is to be increased from \$19,583 to \$21,637, and the phase-in limits are also increased. I could go into the details of that, but I do not want to bore those who are listening with further high levels of detail. The point is that these adjustments are almost automatic. They are announced in each budget and are then legislated. They are being legislated today in this particular bill. I suppose an alternative would be to legislate for automatic adjustments so that we did not need to come into parliament and make these adjustments in the way that we do. But that is a matter for the government of the day. It is something that might be worth contemplating. I do not have a strong commitment to that thought, but it is a thought I would like to throw on the table or, more accurately, the dispatch box.

Labor supports this proposal to provide assistance to low-income earners by exempting them from paying the Medicare levy. It is worth pondering for a moment why we have a Medicare levy. We have a Medicare levy because we have had Labor governments in the past. If we had not had Labor governments, there would be no Medicare levy. The pre-Whitlam and post-Whitlam eras were characterised by coalition governments and there was no universal health insurance. In fact, the Whitlam government introduced Medibank and the incoming Fraser government that later became the Fraser-Howard government went about systematically destroying universal health insurance coverage in this country. In that time, between 1975 and 1983, there were seven different coalition health policies in seven years, all directed at ensuring there was no universal health insurance coverage in this country. As a consequence of that, when the Hawke Labor government was elected in 1983 there were two million Australians

without health insurance coverage. Just contemplate that. Under the Fraser-Howard government, two million Australians were out in the cold and very vulnerable to the consequences of becoming ill and having to go to hospital without any coverage such as that provided by Medibank beforehand and by Medicare under the incoming Hawke government. That is why we have a Medicare levy. The Medicare levy was designed to collect, in a progressive manner from taxpayers, a contribution to the overall costs of health care in this country. That is why these adjustments are being made today. The concept was that if the income tax system was progressive then the Medicare levy itself would be progressive, but only if we adjusted the thresholds at which the Medicare levy became payable in accordance with changes in the cost of living as measured by the consumer price index.

Previous speakers from the coalition have said that the budget includes some measures to deal with dental care. To the extent that it includes some measures to deal with dental problems in our country it is welcome. But why not reinstate the Commonwealth dental scheme? The Keating government implemented the Commonwealth dental scheme and one of the first decisions of the incoming Howard government was to scrap it. In a most slippery explanation of the government's scrapping of that scheme, the current health minister said that it had expired with the effluxion of time; it just ran out. If a program just runs out, you would not find in the budget papers the savings from the expiry of the program; it just expires with the effluxion of time. In fact, the government booked the savings from scrapping of the Commonwealth dental scheme in its budget but said it just died; it expired with the effluxion of time. It wanted to have it both ways. Either

you scrap it and face up to the community and say, 'It is true that we don't care that much about the dental health of low-income earners and pensioners and therefore we have scrapped this scheme,' or you say, 'It just expired with the effluxion of time and therefore we do not book the savings.' But this government wanted the best of both worlds.

Labor has said time and time again that we would reinstate the Commonwealth dental scheme. The waiting lists are horrendous. Somewhere in the order of 500,000 needy Australians are waiting to get their teeth fixed. In Logan Hospital, which covers most of my electorate, the waiting lists are very long. It was the Beattie government that stepped into the breach created by the abolition of the Commonwealth dental scheme and increased funding for dental care at Logan Hospital. But there is a great hole there—pardon the pun—because the Commonwealth vacated the field. We have just heard the Parliamentary Secretary to the Minister for Industry, Tourism and Resources, who is at the table, say that it just expired. So here we are yet again to this day repeating the minister's completely false statement that this program simply expired in 1997, yet they booked the savings. He is well-briefed. The propaganda machine is well and truly grinding on, although they have had to change a name—Work Choices—as they dare not say it. The propaganda machine is grinding on but we are not to mention that name any more. This propaganda machine has got government ministers, parliamentary secretaries and backbenchers all briefed that this program just ran out, but you cannot book the savings at the same time.

There is a range of other tax measures in the budget which I will refer to today. I give credit where credit is due, because some of those tax measures are quite

worthwhile and constitute some element of an overall reform package, but not the totality of a comprehensive reform package. In this budget the government increased the low income tax offset from \$600 to \$750. It used to be, in the budget before last, \$235. So in two budgets the government has increased that low income tax offset from \$235 to \$750. The effect of that is that low-income earners have an effective tax-free threshold now of \$11,000 rather than \$6,000. Why is that important? The answer is that over that range, from \$6,000 to \$11,000, important decisions can be made, and are made, in relation to whether a low-income earner takes on extra work, perhaps moving from a casual job to a more permanent job, and therefore earns extra income. The benefit of increasing the low income tax offset is that that tax-free threshold will be available all the way up to \$11,000. So in the range between \$6,000 and \$11,000, 15c is stripped off what is called the effective marginal tax rate—that is, those low-income earners are able to keep 15c in the dollar more than they otherwise would have been able to do had the low income tax offset been set at the pre-existing rate of \$235.

We give credit for this policy because it is Labor policy. The shadow Treasurer and former shadow minister for family services, the member for Lilley, has been arguing for this policy for as long as I can remember—certainly for the last five or six years—because it is he who has led the debate on the need to reduce high effective marginal tax rates to improve the incentive to move from welfare to work. So credit goes to the shadow Treasurer and credit goes to the government for picking up the shadow Treasurer's suggestions. We do give credit where credit is due.

There is another good, positive measure in the budget that has similar incentive effects—that is, the threshold for the 30c rate is pushed out from \$25,000 to \$30,000 a year. Again, this is an important area for work incentives. It is around the area of the minimum wage. We know that one of the problems with the minimum wage is that there is a lot of interaction around that income level between the income tax and social security systems yielding in some cases very high effective marginal tax rates, depending on the number of children you might have and your eligibility for family tax benefit and other benefits. All of that means that, by shifting the threshold of \$25,000 to \$30,000, again, the 30c rate cuts in later, at \$30,000 instead of \$25,000, taking 15c off the effective marginal tax rate over that income range. Why is that important? The answer is that those income earners get to keep 15c more in the dollar for every extra dollar they earn. That therefore improves work incentives. That is another positive measure. I would point out that both of those measures I also recommended in my book *Vital Signs, Vibrant Society*, although I readily acknowledge that the member for Lilley had been arguing for such measures for some time.

The government is likely to get an improvement in workforce participation by improving those incentives, but there is a group of Australians for whom the incentives remain completely perverse. I am referring to single mothers. The government has announced and is now in the process of implementing so-called welfare to work reforms. In fact, they are welfare to welfare reforms. This is one of the worst pieces of public policy that you can imagine. Single mothers whose youngest children are turning eight are, as we speak, being dropped down from the higher sole parent pension, called the parenting payment, to the unemployment

benefit, called newstart. So they will lose a substantial amount of money per week and they will have a smaller income free threshold before they start losing that benefit. They will lose an education supplement. It is obscene that single mums who try to improve their workforce capabilities by lifting their skills, whether it be through vocational education or going back to school, will lose this pensioner education supplement.

All the incentives go absolutely the wrong way. All the incentives go the way of moving not from welfare to work but from welfare to welfare. There is one way of avoiding that drop in payments and the loss of those incentives and that is to have another baby. It is a free country and mothers should be able to have babies when they want to, but is this really a matter of great public policy design? The government has set up incentives whereby poor single mums who are struggling financially will be put in a situation where benefits are stripped off them and they will have one clear course of action remaining. That is to have another baby and put the problem off for another six to eight years and pick up a baby bonus, which is soon to become \$5,000. That is why I cannot for the life of me understand how any government could come up with such a scheme.

The government announced a review and there seemed to be hope because people were pointing this out. Anne Harding from NATSEM, who the Prime Minister often quotes, pointed out these perverse incentives. The government reviewed them and did not change any of the fundamentals. That problem is still there. I have given credit where credit is due in this budget, but I urge the government in the time that it has remaining to have a fresh look at that welfare to

work arrangement for single mothers because it is really welfare to welfare and it should be scrapped.