MEDIA BRIEFING: GENDER LENS ON THE ELECTION

Key Policy in discussion	**TAXATION**
Portfolio and or agency	**TREASURY**
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Executive Summary

The stage three tax cuts should not proceed. They are regressive, with benefits flowing to high income earners. Inequality is growing post COVID with clear differences between people with secure jobs that can be performed remotely and others working part time or casually in a face to face role; such as retail or aged care workers, who are predominantly female workers.

Australia is a low tax country. There is a clear need for additional funds to increase spending on child care and aged care, as well as to assist businesses and individuals in the economic recovery from the COVID pandemic. Tax reform, beyond tinkering with tax rates is vital to provide the level of, and equitable access to, services that Australian deserve.

Governments have done little to address the high Effective Marginal Tax Rates (EMTRs) which continue to make it financially unviable for thousands of Australian women to increase their hours of work to full time participation rates.

Key Questions of concern that need to be addressed
We note that both parties are committed to retaining the stage 3 tax cuts.

1. What measures are proposed, other than an annual extension of the Low and Middle Income Earners Tax Offset (LMITO), to ensure that the benefits of tax cuts flow through to lower income earners?

2. If tax offsets are used to provide tax benefits to lower income earners, will a delivery mechanism be implemented to allow the offset to be distributed through payroll instead of when tax returns are lodged?

3. If elected, will they commit to genuine tax reform and prioritisation of expenditure, in order to fund services that are in urgent need of additional resourcing, including the aged care and child care sectors and workforces?

4. How will your government ensure that tax and transfer settings will no longer be a disincentive to women working extra days of work, but instead reward and improve women's full time workforce participation rate, contributing to higher GDP?

5. Instead of treating the delivery of care as an expenditure burden that necessitates higher taxes, will your government acknowledge that adequately resourcing care services (childcare, aged care, disability care) is an investment in the productivity and participation rates of our workforce, and thereby largely pays for itself in terms of long-term fiscal strategy?

Details about this policy

According to MYEFO (Treasury, 2021a), in 2021-22 tax receipts are estimated to be 22.3% of GDP, rising to 24.9% in 2031-32. The Government has set a cap of 23.9% on the tax to GDP ratio, which is well below the OECD average of 33.5% (OECD Stats, 2021). This limits the capacity of the Government to fund programs and services for the Australian community, including the provision of aged care, child care and health services. The Australian Government's largest source of tax revenue is income tax, comprised of personal income and corporate tax, followed by taxes on goods and services.

The taxation system is gendered through the relationship between marginal tax rates and earnings; the effect of means tested benefits, particularly Family Tax Benefits and Child Care Subsidy; and the reliance on taxes to adequately fund services that are used more heavily by women, including health, education and aged care services. Income tax rates are gender neutral: but the effect of the gender pay gap means that tax rates and brackets affect women differently from their male counterparts. According to the most recently published tax statistics, women are still overrepresented at the lowest tax bracket, and underrepresented at the highest tax bracket:

Taxable income range	Male	Female	Total	Female %
$18,200 or less	1,180,403	1,510,256	2,690,659	56%
$120,000 or more	1,040,966	400,481	1,441,447	28%

Taxation statistics 2018–19: Table 3 Individuals www.data.gov.au

The stage 3 tax cuts are targeted at individuals earning more than $120,000 per annum, therefore men will gain more benefit from these tax cuts than women. These tax cuts will also add to the growing inequality experienced Post COVID between those with secure well paid jobs and those in casual and part time work, the majority of whom are women.

Earlier stages of the tax cuts compensated low and middle income earners by providing a tax offset (LMITO) for individuals earning less than $126,000 that would have been removed when the stage 3 tax cuts resulted in a reduction in the middle income tax rates. As the second stage of the tax cuts was brought forward to reduce tax rates for higher income earners, the LMITO was also extended for a year. This timing mismatch needs to be resolved permanently, not on an ad-hoc basis each year.

Furthermore, the LMITO also is only payable annually when income tax returns are lodged, whereas many low income earners need the tax reduction to be paid in their pay packet to keep up with increasing costs of living. The deferral of the payment is based on being able to calculate entitlement accurately. It should now be technically possible to distribute the offset through payroll as single touch payroll provides real time data regarding changes in income.

The second effect of the marginal tax rate system is the interaction of tax and welfare payments to create high effective marginal tax rates (EMTRs), which are a financial disincentive to workforce participation. The LMITO is bad tax design, as it is a disincentive against low-income workers increasing their workforce participation: it increases the effective marginal tax rates of low-middle income workers. The Henry Review has recommended that offsets should be incorporated into marginal tax rates (Treasury, 2010: Recommendation 5).

Effective marginal tax rates combine the effects of tax payable on workforce income with the means-tested tapering of welfare payments. This is a particular workforce disincentive to the second income earner in a household with children as family tax benefits and child care subsidies are reduced as the family income increases. It is also relevant where tax offsets are withdrawn based on earned income.

Calls for tax reform, such as from the OECD, have pushed for a broadening of the tax base beyond personal income tax. While commentators often point towards expanding consumption tax, when a gender lens is applied, an increase in GST has a larger negative impact on women (Hodgson and Sadiq, 2017). Re-examination of wealth taxes and the tax concessions granted to high income earners and asset holders, for example the Capital Gains Tax discount, must be considered as part of overall tax reform (Treasury, 2010).

Questions of “budget repair” tend to fixate on cutting government services or raising taxes (or a combination of both) as the recipe to reduce government debt. This approach overlooks the fact that fiscal sustainability depends on the debt-to-GDP ratio, not the level of debt itself. A short-sighted fixation on “budget repair” overlooks the value of investing in policies to boost higher participation and productivity as long-term source of economic growth and generator of tax revenue, leading to boosted GDP. This can be delivered by supporting women’s higher workforce participation, including expanding the provision of care services. We note that according to the Intergenerational Report aged care spending is expected to nearly double as a share of the economy by 2060-61 (Treasury, 2021b); and economic modelling presented in the NFAW 2020 Gender Lens on the Budget Report shows the benefits of increased funding in the care sector.