



Attn:

Manager
Resource Tax Unit
Indirect, Philanthropy and Resource Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600
Email: MRRTRepeal@treasury.gov.au

This is the Future Party submission to the MRRT and related measures repeal.

The impact of the MRRT and related measures repeal on the livelihoods of those who currently receive assistance from the government.

Executive summary

The repeal of the MRRT and related measures will reduce the income of many families in Australia. While there may be benefits to the economy by reducing the tax burden on mining companies, the repeal of items such as the Schoolkids Bonus will have a high impact on those who currently receive payments where there is only sporadic or no work related income into the household.

Housing costs makes up a large proportion of household spending in families who are dependent on government welfare. The examples we considered in the following submission of a two-child family of various ages and parental situation showed that the rental costs of such a family were between 45% and 56% of the family budget in Sydney.

The removal of the Schoolkids Bonus and income support bonus would see budgets of families with children of various ages and number of parents reduce by between \$20 to \$40 per week. These families (particularly single parent families) only have a little over \$100 per week per person in the family remaining to pay for food, clothes, utilities, transportation out of pocket healthcare and other incidentals. A reduction in family income proposed under the MRRT repeal will put a heavy strain on those families to afford even the basic necessities, which will affect the health, housing stability and education of the children in these families.

Recommendations

- Short-term recommendation: That any decrease in the Schoolkids Benefit and Income Support Benefit as a result of this repeal be immediately supplemented with welfare increases from other streams, such as Family Tax Benefit A and Youth Allowance.
- Medium-term recommendation: That a thorough, government commissioned review into the living expenses of those of receiving welfare be conducted to determine the appropriate level of welfare necessary to support what society considers a minimum standard of living.
- Long-term recommendation: That issues such as land releases, building regulation and property investment and taxation structures be investigated to determine how to increase housing supply, especially at the cheaper end of the market, to ensure that housing becomes affordable for those with lower incomes.

Background

The Future Party intended to make a much more detailed report into the level of income payments to a variety of groups and the impact that the removal of the Income Support Bonus and the Schoolkids Bonus would have on a typical income supported household. Unfortunately, the extremely short period to make such a submission means that we can only make a few comparisons in the Sydney basin with which we are familiar. However, we hope that these comparisons will be instructive as to the great negative impacts that removal of these payments will have on those who have least in our society.

We decided to make a submission on this topic, primarily because we believe that transfer payments have a much greater impact on the quality of life of those who receive them (those with no or low incomes) than those pay for them (shareholders or owners of mining companies, in this case). The Future Party strongly believes that burdensome and complicated taxes on companies should be minimised to allow our economy to prosper and hence increase opportunity to all people through increased employment and economic development.

That said, we believe that reducing the tax burden on mining corporations at the expense of the minimum level of quality of life is not just. We believe that in a modern, developed nation, that the following items are requirements to continue a just society with opportunity for all:

- Access to healthy food and water
- Access to appropriate shelter
- Access to education
- Access to healthcare
- Access to transportation
- Access to communication

“The Income Support Bonus, as well as the Schoolkids Bonus, provides additional income to those who are on welfare payments which are currently insufficient to provide for those families.”

We believe that the current levels of welfare allowance, coupled in particular with high housing costs means that not all of these items can be afforded by many of those who receive welfare payments at current rates. The Income Support Bonus, as well as the Schoolkids Bonus, provides additional income to those who are on welfare payments which are currently insufficient to provide for those families.

The Future Party believes that there is good cause to reduce welfare complexity by removing individual payments such as the Schoolkids Bonus, instead replacing them with simpler systems, such as directly increasing payments to job seekers, parents and children who are in need of income support. However, simply removing these payments without additional funding will make life tougher than it already is for these families.

It is certainly clear that the MRRT is far more administratively burdensome than the pre-existing system of state-based mining royalties; however, resource rent taxes are generally considered to be less economically distorting than royalties¹, so it is not naively clear which is more efficient. To determine the optimal taxation regime for Australia's mining industry would require considerably more resources than the Future Party has at its disposal and we are therefore explicitly not making a recommendation as to how Australia's resources should be taxed.

1

http://im4dc.org/wp-content/uploads/2012/01/UWA_1698_Paper-01_-Mineral-royalties-other-mining-specific-taxes1.pdf

Disparity between welfare increases and cost of living increases

The national weighted CPI index over the last ten years has increased by 31.5% over the last 10 years (Sept 2003 to Sept 2013). In comparison, the weighted rental index for Australia has increased by 50.0%, and in Sydney by 55%.²

“...the use of the CPI to adjust payments year to year has been insufficient in keeping up with the real changes in living costs...”

Considering that housing makes up a much larger proportion of the expenditure of a lower income household than a middle income household, the use of the CPI to adjust payments year to year has been insufficient in keeping up with the real changes in living costs of those who are receiving benefits. We believe that current rates of welfare may be insufficient for some groups of people.

Costs of rent for people on welfare

We assumed that the minimum standard of housing required for a family with one or two parents and one or two children is a two-bedroom house or apartment. For many, this will be undesirable (depending on the makeup of the family) but we only wish to show that what most people would consider a bare-minimum standard is unattainable for those currently receiving welfare.

A search of domain.com.au on 31/10/2013 showed 3 properties in total in the Bankstown area with rents of <\$300 (all \$290, all in Punchbowl). If rents are allowed to rise to \$350 per week, a total of 14 properties are available. While it may be possible for some welfare recipients to attain housing at prices below \$300 per week, it is much more likely that they will have to seek housing at the level of \$330-\$350 per week. 13 properties can be found in the Campbelltown region below \$300 per week, and 27 properties can be found in the Campbelltown region for less than \$350 per week. Although these properties indicate better affordability for those people who currently receive benefits, the great distance from there to the other regions of the city reduce the opportunity to work and will increase the propensity of those currently on welfare to stay on welfare.

“Based on the volume of housing available, we believe that the minimum a family can expect to pay in the Sydney basin for their housing through traditional rental routes is \$350 per week.”

Searching in and around the suburbs of Blacktown, Campbelltown, Mount Druitt, Parramatta, Penrith, and Wentworthville, there were 54 properties with rents less than \$300 per week. This represented a search across 34 suburbs. The cheapest property, at \$250 per week, was a granny flat in Penrith. Houses and apartments started at \$280 per week, however only a couple of 2 bedroom apartments were on offer at \$280. Based on the volume of housing available, we believe that the minimum a family can expect to pay in the Sydney basin for their housing through traditional rental routes is \$350 per week. No in-person research was done to determine the suitability of this housing for raising a family.

² <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Sep%202013?OpenDocument>

Calculations

We decided to calculate the maximum welfare applicable in three situations. A single parent with children aged 5 and 7, a single parent with children aged 12 and 14 and a couple with children aged 12 and 14.

Single parent, two dependent children aged 5 and 7

Payment type	Amount per fortnight	Amount per week	Change
Parenting payment	\$ 699.90	\$ 349.95	
Clean Energy Supplement	\$ 9.20	\$ 4.60	
Rent assistance (maximum rate)	\$ 145.18	\$ 72.59	
Family Tax Benefit part A	\$ 344.40	\$ 172.20	
Family Tax Benefit part B	\$ 102.20	\$ 51.10	
Schoolkids Bonus	\$ 31.54	\$ 15.77	
Income Support Bonus	\$ 8.14	\$ 4.07	
Total payment (Current)	\$ 1,340.56	\$ 670.28	Per Family
Total payment (after MRRT repeal)	\$ 1,300.88	\$ 650.44	-\$ 19.84
Rental costs	\$ 700.00	\$ 350.00	
Remaining income removing rents (current)	\$ 640.56	\$ 320.28	
Remaining income removing rents (after MRRT repeal)	\$ 600.88	\$ 300.44	
Remaining income per person after removing rents (current)	\$ 213.52	\$ 106.76	Per person
Remaining income per person after removing rents (after MRRT repeal)	\$ 200.29	\$ 100.15	-\$ 6.61

A single parent with two dependent children aged 5 and 7 would expect their weekly budget to reduce by approximately \$20 per week with the repeal of the MRRT.

Rental accommodation costs make up approximately 54% of the household budget. Each person in this household currently has just \$107 per week to pay for food, electricity and water usage, internet connection, clothing, transportation, incidental education expenses (books, pens etc) and out of pocket medical expenses. The repeal of the MRRT will reduce that amount by \$6.61 per person. This represents a decrease in funds available for the purchase of goods other than housing of approximately 6.2%.

Single parent, two dependent children aged 12 and 14

Payment type	Amount per fortnight	Amount per week	Change
Newstart Allowance	\$ 542.10	\$ 271.05	
Clean Energy Supplement	\$ 9.20	\$ 4.60	
Rent assistance (maximum rate)	\$ 145.18	\$ 72.59	
Family Tax Benefit part A	\$ 448.00	\$ 224.00	
Family Tax Benefit part B	\$ 102.20	\$ 51.10	
Schoolkids Bonus	\$ 63.08	\$ 31.54	
Income Support Bonus	\$ 8.14	\$ 4.07	
Total payment (Current)	\$ 1,317.90	\$ 658.95	Per Family
Total payment (after MRRT repeal)	\$ 1,246.68	\$ 623.34	-\$ 35.61
Rental costs	\$ 700.00	\$ 350.00	
Remaining income removing rents (current)	\$ 617.90	\$ 308.95	
Remaining income removing rents (after MRRT repeal)	\$ 546.68	\$ 273.34	
Remaining income per person after removing rents (current)	\$ 205.97	\$ 102.98	Per person
Remaining income per person after removing rents (after MRRT repeal)	\$ 182.23	\$ 91.11	-\$ 11.87

A single parent with two dependent children aged 12 and 14 would expect their weekly budget to reduce by approximately \$35.61 per week with the repeal of the MRRT.

Rental accommodation costs make up approximately 56% of the household budget. Each person in this household currently has just \$103 per week to pay for food, electricity and water usage, internet connection, clothing, transportation, incidental education expenses (books, pens etc) and out of pocket medical expenses. The repeal of the MRRT will reduce that amount by \$11.87 per person. This represents a decrease in funds available for the purchase of goods other than housing of approximately 11.5%.

Two parent, two dependent children aged 12 and 14

Payment type	Amount per fortnight	Amount per week	Change
Newstart Allowance	\$ 904.60	\$ 452.30	
Clean Energy Supplement	\$ 15.40	\$ 7.70	
Rent assistance (estimated rate)	\$ 86.74	\$ 43.37	
Family Tax Benefit part A	\$ 448.00	\$ 224.00	
Family Tax Benefit part B	\$ 102.20	\$ 51.10	
Schoolkids Bonus	\$ 63.08	\$ 31.54	
Income Support Bonus	\$ 16.28	\$ 8.14	
Total payment (Current)	\$ 1,636.29	\$ 818.15	Per Family
Total payment (after MRRT repeal)	\$ 1,556.94	\$ 778.47	-\$ 39.68
Rental costs	\$ 700.00	\$ 350.00	
Remaining income removing rents (current)	\$ 936.29	\$ 468.15	
Remaining income removing rents (after MRRT repeal)	\$ 856.94	\$ 428.47	
Remaining income per person after removing rents (current)	\$ 234.07	\$ 117.04	Per person
Remaining income per person after removing rents (after MRRT repeal)	\$ 214.24	\$ 107.12	-\$ 9.92

A single parent with two dependent children aged 12 and 14 would expect their weekly budget to reduce by approximately \$40 per week with the repeal of the MRRT.

Rental accommodation costs make up approximately 45% of the household budget. Each person in this household currently has just \$117 per week to pay for food, electricity and water usage, internet connection, clothing, transportation, incidental education expenses (books, pens etc) and out of pocket medical expenses. The repeal of the MRRT will reduce that amount by \$9.92 per person. This represents a decrease in funds available for the purchase of goods other than housing of approximately 8.5%.

Conclusion

The repeal of the MRRT and associated family based welfare payments will result in a substantial decrease in funds available to families on welfare to purchase essential goods. We believe that the failure to replace these benefits with equal increases in other welfare payments could result in some families:

- Not being able to afford sufficient or healthy foods
- Missing payments on utilities, which could disconnect services such as electricity
- Missing payments on communication bills, such that those people cannot access essential services and would be a disruption to the education of the children in the family
- Missing payments of rent, which would further destabilise not only that family's housing situation, but will also make landlords and real estate agents question whether families on government welfare can afford even the cheapest of properties.

The repeal of the MRRT, if it occurs, must be matched with an increase in welfare payments to those who will be most affected by these changes.

References

Newstart Allowance

<http://www.humanservices.gov.au/customer/services/centrelink/newstart-allowance>

Parenting payment (currently only for those who have children younger than 8)

<http://www.humanservices.gov.au/customer/services/centrelink/parenting-payment>

Family Tax benefit A

<http://www.humanservices.gov.au/customer/enablers/centrelink/family-tax-benefit-part-a-part-b/ftb-a-payment-rates>

Family tax benefit B (single parental income)

<http://www.humanservices.gov.au/customer/enablers/centrelink/family-tax-benefit-part-a-part-b/ftb-b-payment-rates>

Rent assistance

<http://www.humanservices.gov.au/customer/services/centrelink/rent-assistance>

<http://www.humanservices.gov.au/customer/enablers/centrelink/rent-assistance/payment-rates>

Income support bonus

<http://www.humanservices.gov.au/customer/services/centrelink/income-support-bonus>

Schoolkids bonus

<http://www.humanservices.gov.au/customer/services/schoolkids-bonus>