

15 March 2023

Committee Secretariat  
Select Committee on Cost of Living  
PO Box 6100  
Parliament House  
Canberra ACT 2600

By email: [costofliving.sen@aph.gov.au](mailto:costofliving.sen@aph.gov.au)

Dear Sir/Madam

### **Select Committee on the Cost of Living**

The Tax Institute welcomes the opportunity to make a submission to the Senate Select Committee on the Cost of Living (**the Committee**) in respect of its [inquiry](#) and report on the cost of living pressures encountered by Australians. We have limited our response to those aspects that relate to the Australian taxation and transfer systems.

In the development of this submission, we have closely consulted with our National Technical Committees to prepare a considered response that represents the views of the broader membership of The Tax Institute.

We welcome the Committee's inquiry into the cost of living pressures Australians are facing. The Tax Institute is of the view that tax and transfer measures can be used effectively to ease the cost of living. This can be through tax incentives for businesses to invest in skills, training and technology to improve productivity, or increasing the subsidisation of costs, such as the Child Care Subsidy (**CCS**), to encourage greater workforce participation.

It is imperative that, as cost of living pressures increase, taxpayers can readily access information and services, so they can easily comply with their tax affairs and do not become disengaged from the tax system. Therefore, our recommendations include allocating permanent funding to the ATO to enable it to provide guidance and efficient services to the Australian tax community. We also consider that additional funding of the National Tax Clinic program will enable it to expand its service offerings to more taxpayers impacted by cost of living pressures, and support better tax compliance for a wider range of the Australian community.

Our detailed response is contained in **Appendix A**.

We would be pleased to continue to work with the Government on how taxation and transfer policies can be utilised to ameliorate the current cost of living pressures facing Australians.

The Tax Institute is the leading forum for the tax community in Australia. We are committed to shaping the future of the tax profession and the continuous improvement of the tax system for the benefit of all. In this regard, The Tax Institute seeks to influence tax and revenue policy at the highest level with a view to achieving a better Australian tax system for all. Please refer to **Appendix B** for more about The Tax Institute.

If you would like to discuss any of the above, please contact our Senior Tax Counsel, Julie Abdalla, on (02) 8223 0058.

Yours faithfully,



**Scott Treatt**

General Manager,  
Tax Policy and Advocacy



**Todd Want**

Council Member

## APPENDIX A

We have set out below our detailed comments and observations for your consideration. Our comments broadly follow the layout of the Terms of Reference. We have limited our responses to the questions that our members consider to be the most relevant and crucial, as they relate to the tax and transfer systems.

### Cost of living pressures facing Australians

#### Pressures from rising inflation and interest rates

High inflation and rising interest rates have increased the cost-of-living and placed significant pressure on Australians. Over the twelve months to the December 2022 quarter, annual inflation measured by the Consumer Price Index (CPI) rose by 7.8%, the highest annual inflation rate since 1990,<sup>1</sup> and well above the Reserve Bank of Australia's target inflation band of 2-3% annually.<sup>2</sup> This increase was largely driven by rises in the price of domestic holiday travel and accommodation (+13.3%), electricity (+8.6%), international holiday travel and accommodation (+7.6%) and new dwelling purchases by owner-occupiers (+1.7%).<sup>3</sup>

Wider macroeconomic and global factors are causing the continued growth in inflation. Supply-side pressures from continued supply chain disruptions caused by the COVID-19 pandemic and the invasion of Ukraine, along with strong domestic demand are putting upwards pressure on prices.<sup>4</sup> The Tax Institute is of the view that tax and transfer subsidies and incentives can be utilised to help ease supply-side pressures, which will improve affordability of goods and services for the Australian community.

### Ways to ease cost of living pressures through the tax and transfer systems

#### Indexation of marginal tax thresholds

A progressive personal income tax regime plays a fundamental role in influencing the distribution of income across the community.<sup>5</sup> However, this is only effective where the personal income tax thresholds are commensurate to taxpayers' economic capacity. Wage growth is one contributor to bracket creep, which results in tax being imposed on individuals and families at a higher effective rate. This leaves taxpayers with lower net disposable income. This, coupled with rising inflation, increases the pressure on family budgets. The Tax Institute is of the view that, the personal income tax thresholds should be indexed to the CPI. By taking into account factors such as wage growth and inflation, indexed tax rates may leave taxpayers in an overall better position to deal with current cost of living pressures.

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<sup>1</sup> Australian Bureau of Statistics, [Consumer Price Index, Australia](#) (Web Page, 25 January 2023) ('ABS CPI').

<sup>2</sup> Reserve Bank of Australia, [Inflation Target](#) (Web Page).

<sup>3</sup> ABS CPI (n 1).

<sup>4</sup> Reserve Bank of Australia, [Statement by Philip Lowe, Governor: Monetary Policy Decision](#) (Media Release 2022-41, 6 December 2022).

<sup>5</sup> Ken Henry et al, [Australia's future tax system](#) (Final Report – Part 1, December 2009) 49.

## Reforms to family tax benefits and the Child Care Subsidy

The measures introduced by the recently passed Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022 (**the Child Care Bill**) will improve child care affordability and support parents who may be deciding to re-enter the workforce. However, the CCS regime remains significantly complicated and prevents parents in certain circumstances from accessing the full amount of the subsidy to which they may otherwise be entitled, hampering the expected benefits.

As highlighted in our [Employment White Paper submission](#), the activity test prescribes 100 hours per fortnight per child as the maximum number of hours that are eligible for CCS. This maximum is calculated based on the centre's opening hours and not the hours during which the child is in care. This means that an eligible individual working full time will be able to claim the full 100 hours of the subsidy if their child attends a child care centre that is open no more than 10 hours per day. If, however, the childcare centre is open for 11 hours per day (such as 7:30am to 6:30pm), the eligible individual working full time will only be able to claim 9 days' worth of care per fortnight, leaving the tenth day fully unsubsidised. This is the case even if the child is not in care for the full 11 hours that the centre is open each day. The primary caregiver's effective marginal tax rate could increase to 80% or above because of this shortfall, disincentivising full time work and increasing pressure on household budgets.

The Tax Institute is of the view that the activity test should be updated to more effectively subsidise these costs for families requiring child care. Such a change would ease cost of living pressures by simultaneously reducing the strain on household budgets from child care and increasing the size and productivity of Australia's workforce.

## Reducing compliance costs through tax reform

The current two-tiered corporate tax rate system creates complexities, increased compliance costs and anomalous outcomes.<sup>6</sup> A single business tax rate of 25% across entities of different sizes and types (company, partnership, sole trader, trust) would reduce compliance costs and enable businesses to channel this additional expenditure on generating efficiencies and increasing productivity.<sup>7</sup> If such gains were passed onto consumers, this could reduce consumer costs and assist with the cost of living.

Other reforms to simplify tax laws would also reduce compliance costs. The Tax Institute is of the view that prompt reform is needed to resolve the inefficiency of the fringe benefits tax (**FBT**) regime, simplify superannuation measures and address the inherent complexities of the taxation of trusts.<sup>8</sup> Such reforms will reduce compliance costs by reducing the uncertainty and excessive complexity of these areas. Business savings on compliance costs can be redirected towards increasing productivity, putting downward pressure on prices. Further detail on the reforms required for these measures are included in our [Federal Budget 2023-24 Submission \(2023–24 submission\)](#).

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<sup>6</sup> The Tax Institute, [The Case for Change](#) (Report, July 2021) 50.

<sup>7</sup> Ibid.

<sup>8</sup> The Tax Institute, [Federal Budget 2023-24 Submission](#) (2023) 2.

## Addressing production costs by reducing the skills shortage

As highlighted in the [Job and Skills Summit Issues Paper \(issues paper\)](#), full employment is a key requirement to enabling the Australian economy to achieve its potential. Full employment expands the production capacity of Australian industries, and this increased supply of goods and services should help to push down prices, alleviating the increased cost of living. With Australia's aging population and an existing skill shortage, it is unlikely that price increases due to a lack of skilled workers will be ameliorated without significant intervention, such as by boosting skilled migration. We consider that the tax and transfer systems also could be utilised to abridge the skill shortage by incentivising Australian workers to remain in the workforce for longer, pushing down business' costs of production and therefore prices faced by consumers.

For example, increasing the age pension income test to allow pensioners to earn a certain amount of employment income in these industries would provide much needed labour and output while also incentivising these taxpayers to continue working as it will not impact their eligibility for the age pension. For these workers, it will also assist to mitigate cost of living pressures. We consider that retaining workers in the workforce for longer will provide additional time for the Government to determine and implement an approach to address the longer-term supply of these skilled workers, in turn addressing supply-side pressures that are increasing the cost of living.

The Tax Institute is of the view that the Government should consider increasing subsidies of tertiary education for those occupations with forecasted skill shortages. Feedback from our members indicates that the cost of tertiary education, and the subsequent Higher Education Loan Program (**HELP**) loan, can act as a deterrent for taxpayers seeking to commence a career in certain occupations. This is apparent where the tertiary education fees are disproportionate to the potential earning capacity for that occupation. This may result in those taxpayers choosing an alternative occupation or subsequently changing occupation and leaving a gap in Australia's workforce. Increasing the Government subsidy for certain tertiary courses may increase their attractiveness, as taxpayers studying in these fields will have lesser HELP loan balance to repay and boost the number of workers for these occupations in the future.

## Small Business Skills and Training Boost, and Technology and Investment Boost

The Tax Institute is of the view that extending the operation of the Small Business Skills and Training Boost (**skills and training boost**) will improve the productivity and skills of Australia's workforce, reducing the cost of production for businesses. As discussed in our [Employment White Paper submission](#), the skills and training boost allows businesses with an aggregated turnover of less than \$50 million to claim 120% of the value of external training costs as a deduction and applies from 7:30pm AEDT on 29 March 2022 until 30 June 2024.

The skills and training boost can ameliorate the cost-of-living pressures facing Australians by:

- improving the skills and productivity of workers; and
- reducing future worker and skills shortages in certain areas.

These improvements will reduce the cost of production for businesses and may result in lower prices being charged to consumers.

The Small Business Technology Investment Boost (**technology investment boost**) is another measure that can similarly reduce inflationary pressure. The technology investment boost encourages businesses with an aggregated turnover of less than \$50 million to invest in digitising their operations by providing a 120% deduction for eligible expenditure incurred between 7:30pm AEDT on 29 March 2022 until 30 June 2023. Extending the operation of this measure will allow businesses a longer timeframe to invest in technology that will lead to improvements in business productivity. This may help to increase the amount of goods and services that small businesses can produce.

### **Consultation regarding tax incentives for industries with supply-side pressures**

The Tax Institute is of the view that a regime similar to the previously proposed patent box regime could be used to encourage increased production in industries suffering supply-side pressures. As detailed in our [Employment White Paper submission](#), the enactment of the Australian patent box regime was expected to encourage investment in Australian medical and biomedical industries by offering a lower tax rate of 17% for income derived by corporate taxpayers in those industries. Tax concessions have been shown to influence both consumer and business behaviour and a concessional tax rate is favourable to investment.

A similar type of regime with a concessional tax rate for certain other corporate taxpayers could help address cost of living pressures. Businesses in key industries facing supply-side shortages would be encouraged to invest in domestic production of goods and services, increasing domestic supply. This would then decrease domestic prices and address the cost of living crisis.

To develop such a regime, a consultation process should be carried out to identify the industries in which Australia is most vulnerable to supply-side delays and costs. Consideration should also be given to whether other tax incentives may help those industries.

## **Measures to ease the cost of living through provision of government services**

### **Permanent funding to the ATO**

The largest sources of the ATO's funding have historically been provided in lump sum amounts to taskforces that target specific taxpayer segments or recovery of revenue. We consider it paramount that greater permanent funding is allocated to the ATO support teams such as the ATO's Law Design and Practice branch and technology teams. Such additional funding will enable the ATO to improve underlying technological interfaces and publish more guidance to a broad range of taxpayers who can then easily comply with their tax obligations. Further detail on this recommendation is contained in our [2023-24 submission](#).

## Funding of the National Tax Clinic program

Our [2023-24 submission](#) highlights the important role of the National Tax Clinic program in the community, and the need for more funding to help vulnerable taxpayers meet their tax obligations. The Government currently provides grants to participating clinics so that they are able to help eligible taxpayers for whom professional tax advice may be unaffordable. Additional funding is needed so that the clinics are able to promote their programs more widely, ensuring more taxpayers are aware of the existence of the National Tax Clinic program. This would assist taxpayers in meeting their tax obligations, notwithstanding cost of living pressures, and is especially important given the increasing number of taxpayers experiencing financial distress.

## Other related matters

### Build-to-rent

To help ease the cost of living pressures from high rental prices, more attractive tax treatment is needed to encourage more build-to-rent properties being built. The GST treatment of build-to-rent premises is determined by the type of premises that is being supplied. Where taxpayers have constructed residential accommodation, they will be unable to claim the GST credits on the land and building costs. We consider that more favourable tax treatment is necessary, such as qualifying build-to-rent premises as 'commercial residential premises'. The effect of this change would mean that, among other things, developers could obtain GST credits on construction costs because the supply of residential premises would no longer be input taxed.<sup>9</sup> This is especially important given that price increases for new dwellings over 2022 were mainly driven by high labour and material costs and this is expected to continue.<sup>10</sup> If these savings were passed onto tenants, it would further push prices down and assist with the cost of living crisis.

### Hardship applications

As cost of living pressures increase, it is important that taxpayers who have significant difficulties in paying their ATO debts can access additional support, such as payment plans and potential release from tax debts. The cost of living crisis means there are increasing number of Australians facing financial hardship and who may be unable to repay their ATO debt. The release of ATO debt can occur where the payment of the debt would result in the taxpayer being unable to provide basic living needs for themselves and their family. However, if the taxpayer has other outstanding debts, the ATO will be restricted in its ability to write off debts regardless of whether the taxpayer meets all the other criteria for hardship.<sup>11</sup> This process can consequently result in harsh outcomes.

The Tax Institute is of the view that the ATO's hardship criteria contained in Practice Statement Law Administration [PS LA 2011/1](#) *Debt relief, waiver and non-pursuit* should be updated after public consultation is undertaken. This will help to address the anomalous and potentially inequitable outcomes that arise for taxpayers when applying for relief due to hardship, and the release of debt will better enable these taxpayers to focus on covering basic living expenses for themselves and their family. While we recognise that this is a

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<sup>9</sup> *A New Tax System (Goods and Services Tax) Act 1999* (Cth), s 40.35. See also Australian Taxation Office, '[GSTR 2012/7](#)' (2012) [23].

<sup>10</sup> ABS CPI (n 1).

<sup>11</sup> Australian Taxation Office, '*Practice Statement Law Administration [PS LA 2011/17](#) Debt relief, waiver and non-pursuit*' (2011) [11].

matter for consideration by the ATO, we consider it is important for the Government to bear in mind in the broader context of the cost of living challenges.



## APPENDIX B

### About The Tax Institute

The Tax Institute is the leading forum for the tax community in Australia. We are committed to representing our members, shaping the future of the tax profession and continuous improvement of the tax system for the benefit of all, through the advancement of knowledge, member support and advocacy.

Our membership of more than 11,000 includes tax professionals from commerce and industry, academia, government and public practice throughout Australia. Our tax community reach extends to over 40,000 Australian business leaders, tax professionals, government employees and students through the provision of specialist, practical and accurate knowledge and learning.

We are committed to propelling members onto the global stage, with over 7,000 of our members holding the Chartered Tax Adviser designation which represents the internationally recognised mark of expertise.

The Tax Institute was established in 1943 with the aim of improving the position of tax agents, tax law and administration. More than seven decades later, our values, friendships and members' unselfish desire to learn from each other are central to our success.

Australia's tax system has evolved, and The Tax Institute has become increasingly respected, dynamic and responsive, having contributed to shaping the changes that benefit our members and taxpayers today. We are known for our committed volunteers and the altruistic sharing of knowledge. Members are actively involved, ensuring that the technical products and services on offer meet the varied needs of Australia's tax professionals.