Fair Work Commission

Fair Work Act 2009

Annual Wage Review 2018-19

Response to Questions on Notice

by the

Australian Catholic Bishops Conference

12 April 2019

1. Question 1.1 posed by the Fair Work Commission (FWC) concerns the proposal by the Australian Catholic Bishops Conference (ACBC) to review the work values of the C10 wage rate in the *Manufacturing and Associated Industries and Occupations Award* and the Level 1 graduate employee rate in the *Professional Employees Award.* ACBC maintains the submissions already raised in support of the proposal.
2. Question 3.4 concerns submissions made by ACBC regarding the *New Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians* report considered in the Annual Wage Review 2017-18. ACBC maintains the submissions already made in respect of this matter.
3. Question 3.5 concerns a matter raised by the Australian Council of Trade Unions (ACTU) in regard to the substantial increase in the number of Australian workers who work in a "secondary job". ACBC is unable to provide any empirically-based support for the ACTU's claim that the increase reflects increased financial stress among Australian workers, but submits that it is a reasonable inference that this is a major reason for the change given the large number of low income working families in or at risk of poverty.
4. Question 3.6 concerns a submission made by the Australian Industry Group in support of the claim that the tax cuts introduced in 2018-19 should be taken into account for the purpose of reducing the wage increases in the current wage review. ACBC has referred

to this matter in its Reply submission of 3 April 2019, where it has given reasons for the rejection of the submission.

5. Question 3.7 concerns the FWC's Information Note on the tax-transfer system. Table 1 of the Information Note sets out legislated changes in the income tax thresholds, marginal tax rates and taxation rebates over the years from 2018-19 to 2024-25. These arrangements may be affected to some extent by the proposals recently announced in the April 2019 Budget or by the taxation proposals by the Federal Opposition. However, the substance of each of the following comments is unlikely to be affected by those proposals.

6. There are three observations that we wish to make about the tax-transfer system.

7. First, under the current tax rates a full time worker on the lowest minimum wage rate in Australia, the National Minimum Wage (NMW), loses about one third of every extra dollar earned, whether through a wage increase or through working overtime or taking an extra job in order to help lift his or her family out of poverty and disadvantage. For reasons that we have given in our March 2019 submission, the NMW is not a Living Wage. Yet in order to bridge the gap between the NMW and the Living Wage, about one-third of any increase will be collected by the Commonwealth through income taxation. This is, in our submission, bad public policy and bad economics. To the extent that the wage levels set for the lowest paid and most marginal workers have a negative impact on employment, income tax on the lowest paid workers is, in effect, a tax on employment. Taxation reform should start with the objective of having the lowest possible levels of income tax on workers receiving the NMW. There is no public debate about these matters and we urge the FWC to explore the issue in the hope that public debate can be generated on this important issue.

8. We should also add that the discussion about the April 2019 Budget showed that the prospect of targeting working family poverty and disadvantage through increased family benefits is not a matter of serious public discussion, even by those who advocate that wage increases should be denied or reduced on the basis that targeted family payments would more effectively target poverty and disadvantage among working families. Furthermore, there has been no, or no significant, public discussion about the longer term impact that policies limiting or reducing family payments will have on working families and the wages increases that are required to keep them out of poverty and disadvantage. We welcome the recent public discussion about the need for a Living

Wage, but stress that a Living Wage needs to be accompanied by sufficient and secure family payments. A target for the NMW at 60% of median wages is of little value unless it is accompanied by a sufficient and secure level of family support, underpinned by an understanding of the appropriate contributions that the wages and social safety nets should make to the objective of providing working families with a decent standard of living.

9. The second matter that appears from Table 1 of the Information Note is that the marginal tax rate for the lowest paid workers, who are often living in poverty and disadvantage, is the same as that set for taxpayers with an annual income of $180,000 per year until 2023-24 and $200,000 from 1 July 2014. The imposition of the same marginal tax rate across this income range is unfair.

10. The third matter arising from Table 1 of the Information Note is that lower paid workers (and others) will continue to suffer from bracket creep over the next six years and that it will have a greater impact on them than it will have on higher paid workers. We have already referred in our Reply (in our response to the Australian Industry Group) that low income workers have suffered a substantial losses through bracket creep since the 2012-13 financial year and that the tax cuts introduced in 2018-19 were not sufficient to offset those losses. This will continue over the next six years as a greater percentage of the NMW and other minimum wage rates fall within the 32.5% tax bracket.

11. It is sometimes said that bracket creep occurs when a person's wage increase takes him or her into a higher tax bracket. Hence, it is said that fewer tax brackets and a "flatter" tax system will reduce bracket creep. This kind of reasoning has been used to justify changes in the Australian tax system over recent years.

12. However, the major cause of bracket creep is not the transition to a higher tax rate, but the fact that a wage increase will result in a higher proportion of a person's income falling within a higher tax bracket, even when wage increases are in line with CPI increases or increases in average or median wages. These changes are biased against lower income workers and advantage higher income workers. They will result in lower paid workers paying a higher proportion of tax on their wage increases than will higher paid workers receiving the same percentage increases.

13. This bias against lower paid workers is illustrated in information provided by the Information Note. For example, assume two workers, one on $50,000 per year and the other on $150,000 per year receive pay increases of 20% over the five years 2019-20 to

2024-25. In 2019-20 the lower paid worker will pay $6,467 in income tax (excluding the Medicare levy) and the higher paid worker will pay $39,997 (again excluding the Medicare levy). In both cases the top marginal tax rate is 32.5%. In 2024-25, with an income of $60,000, the lower paid worker will pay income tax of $10,406 (excluding the Medicare levy). This takes into account the S4,000 increase in the top level of the 19% tax bracket, the abolition of LAMITO (at $1,080 per year) and a reduction in the LITO from $250 to $150 per year. On the other hand, the higher income earner with an annual income rising to $180,000 per year will pay $49,506 in income tax (excluding the Medicare levy).

14. With the same percentage wage increase applying to both workers, the lower paid worker will see his or her income tax rise from $6,467 to $10,406, an increase of 60.9%. By contrast, the increase in income tax for the higher paid worker, from $39,997 to $49,506, will see a 23.8% increase in income tax. For the lower paid worker, $3,939 of the $10,000 increase (39.4%) will be lost through increased income tax, while the higher income worker will lose only $9,509 of the $30,000 increase (31.7%) through increased income taxation. The percentage of income tax paid by the lower income worker will rise from 12.9% to 17.3%, whereas the percentage paid by the higher income worker will rise from 26.7% to 27.5%.

15. The unfairness of a single tax bracket spread across such a wide income range means that a high proportion of wage increases awarded to low paid workers will be lost through income taxation and that, in order to maintain living standards and relieve poverty and disadvantage, wage increases will need to be higher than they otherwise would have been had low paid workers not been taxed in a wage bracket set for such a broad range of incomes. This systemic feature, which blunts the effectiveness of NMW and award wage increases is, most likely, a reason for Australian minimum wage rates being relatively high by international standards. As the ACTU observed in its March 2019 submission "The gross minimum wage in Australia has to do relatively more heavy lifting than in many other OECD countries." (Paragraph 411)

16. The Information Note also includes an explanation of the operation of the Child Care Subsidy introduced in July 2018. Low income families (with combined family incomes of up to $66,958 per year) are entitled to 85% of the capped hourly fee of child care. Centre Based Long Day Care is capped at $11.77 per hour and Outside School Hours Care is capped at $10.29 per hour. The financial impact that this new system has had on

low paid working parents will depend to a large extent on the actual costs of child care compared to the amounts set in these caps. We are not aware of any comprehensive research on this matter, but expect that the data will be held by, or available to, the Commonwealth. This is a matter which, we propose, the FWC's researchers could explore and provide information to the parties through an updated Chapter 14 of the *Statistical Report*. The Catholic Church in Australia provides and supports an extensive network of Outside School Hours Care and various Church agencies would be prepared to assist in the development of research into the child care costs of working families.