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Briefing Note: closing carbon tax compensation for some, but not all

22 February 2016

Introduction

In the 2016 budget the government announced that it would close carbon tax compensation to new recipients of government welfare benefits. This will have the effect of reducing the amount paid to welfare recipients. This will save the government $1.3 billion over the forward estimates.

The clean energy supplement was not the only part of the compensation package for the carbon price. The other main feature of was income tax cuts, which the government is not proposing to cut.

These tax cuts are estimated to be costing the budget $8.4 billion over the forward estimates. This is considerably larger than the expected savings of $1.3 billion associated with scrapping the clean energy supplement for new welfare recipients.

This briefing note examines the costs and savings associated with both measures.

The Clean Energy Supplement

Scrapping the clean energy supplement would reduce government payments to a large number of new welfare recipients, including people on the aged pension, Carers, as well as Austudy and Abstudy recipients. The list of welfare payments that receive the clean energy supplement can be found in Table 1.

Table 1: List of welfare payments receiving the clean energy supplement

Welfare payment
ABSTUDY Living Allowance
Age Pension
Austudy
Bereavement Allowance
Carer Payment
Commonwealth Seniors Health Card
Disability Support Pension
Family Tax Benefit
Farm Household Allowance
Newstart Allowance
Parenting Payment
Partner Allowance
Sickness Allowance

Special Benefit
Widow B Pension
Widow Allowance
Wife Pension
Youth Allowance

The amount of the clean energy supplement that is received for selected welfare payments is set out in Table 2. The dollar amount that individuals and couples receive on Newstart is set out in Table 3.

Table 2: Rates of the clean energy supplement for selected government payments

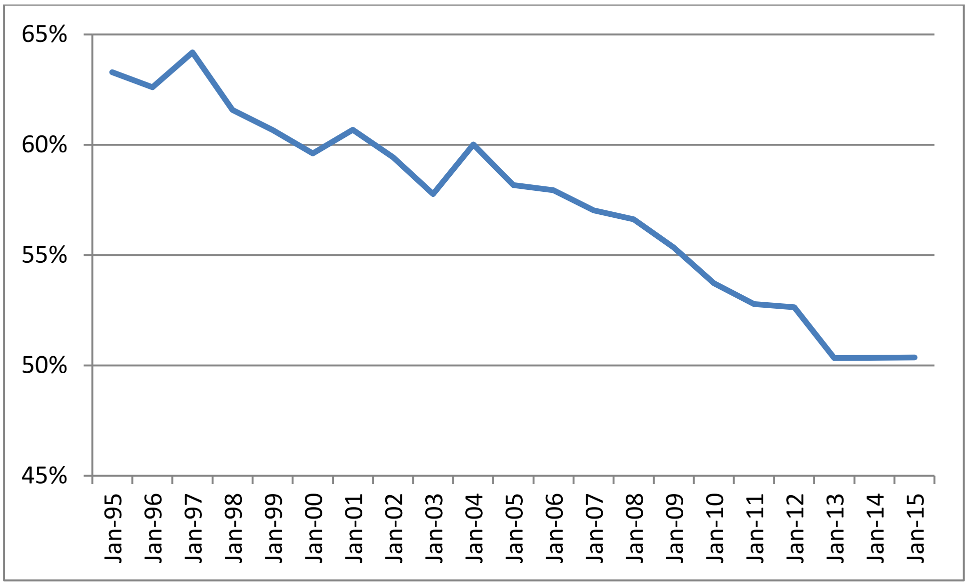
Living Situation	Clean energy supplement payment (per fortnight)
Newstart single, no children	$8.80
Newstart Single, with a dependent child or children	$9.50
Newstart Partnered	$7.90 (each)
Age pension single	$14.10
Age pension partnered	$10.60 (each)
Parenting payment single	$12.00
Parenting payment partner	$7.90

Table 3: Rate of Newstart Allowance for individuals and couples

Living Situation	Maximum fortnightly Newstart payment
Single, no children	$527.60
Single, with a dependent child or children	$570.80
Partnered	$476.40 (each)

Newstart is indexed to the Consumer Price Index (CPI) which tends to rise more slowly than wages. This can be seen in Figure 1 which shows the ratio of unemployment benefits to Adult weekly ordinary time earnings (AWOTE). Unemployment benefits used to be 63 per cent of AWOTE in the mid-1990s. It has fallen to 50 per cent today.

Figure 1: Ratio of unemployment benefits to AWOTE



The savings from closing down the clean energy supplement to new welfare recipients is expected to save the government $1.3 billion over the forward estimates. This is broken down in Table 4.

Table 4: Savings from closing the clean energy supplement to new welfare recipients

	2016-17	2017-18	2018-19	2019-20	Total
Cost millions	$34.8	$282.2	$422.1	$553.7	$1,291.2

The business community has pointed out that unemployment benefits have not been keeping pace with community standards and that they are now inadequate. KPMG said:

> *"Due to political rhetoric, payments for those who are unemployed have fallen behind other payments, to the point that it is commonly recognised that Newstart is inadequate, and significantly so."*[1]

The Business Council of Australia (BCA) has also argued for Newstart to be increased, claiming that its inadequate rate was acting as a barrier to employment. They also argued against the government's claim that a higher rate of Newstart would discourage people from seeking employment.

> *"A disproportionately low rate for the Newstart allowance will not, in and of itself, act as an incentive for people to return to work."*[2]

[1] Aston (2016) Raise the dole, spend less on the dying, says multinational accountancy firm KPMG, *SMH*, April 29, available at <http://www.smh.com.au/federal-politics/political-news/raise-the-dole-spend-less-on-the-dying-says-multinational-accountancy-firm-kpmg-20160428-gogzmh.html>

The government has justified the removal of the clean energy supplement because it was introduced as compensation for the carbon price, which has now been removed and so the government argues it is no longer necessary. This is a reversal from the Coalition's previous position. Before the 2013 election they promised to repeal the carbon price but retain all the compensation[3].

But the clean energy supplement was not the only part of the compensation package for the carbon price. The other main feature of was income tax cuts.

Income tax cuts

The tax cuts involved an increase in the tax-free threshold from $6,000 to $18,200 from 1 July 2012, but the package also included an increase in the marginal tax rates from 15 to 19 per cent for incomes from 18,200 to $37,000. From $37,000 to $80,000 the rate was increased from 30 to 32.5 per cent.

The impact was to limit the benefit at $80,000 and beyond (to just $3) and maximize the benefit at $1,830 for those at $18,200. Those people got the full benefit of the increase in the bottom threshold without experiencing the increases in the marginal rates beyond that point. There was to be a further increase in the bottom threshold which was never implemented but which would have given at least $300 to everyone.

In the 2011-12 MYEFO the cost of the package was expected to be as set out in the following table. Note that the second increase in the bottom threshold was due to come in after these years.

Table 5

	2011-12	2012-13	2013-14	2014-15
Cost millions	$0	$3,350	$2,370	$2,320

The first year cost looks peculiar and is probably explained by accrual complications. The costs shown in 2013-14 and 2014-15 are closer to the on-going costs of that compensation for taxpayers that we might expect today.

There should be two offsetting factors on the likely value of the change in later years. First, there is the natural growth in the number of tax payers and second, there will be some fall in the value of the tax cuts as incomes gradually increase. These offset each other so the net effect is likely to be very small. Given that the cost now should be running at something of the order of $2.1 billion per annum or some $8.4 billion over the forward estimates. This would be a conservative estimate.

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[2] Karvelas (2012) Business Council of Australia calls for lift in dole payments, *The Australian*, August 13, available at <http://www.theaustralian.com.au/national-affairs/business-council-of-australia-calls-for-lift-in-dole-payments/story-fn59niix-1226449033615>

[3] Macintosh (2013) Abbott's balancing act: keeping the compensation while axing the carbon tax, *The Conversation*, May 17, available at <https://theconversation.com/abbotts-balancing-act-keeping-the-compensation-while-axing-the-carbon-tax-14393>

The government has chosen to remove the compensation only from those on government payments from 20 September 2016. In a rather bizarre twist, those people who receive a new benefit between 20 September 2016 to 19 March 2017 will receive the supplement only for it to then be withdrawn as of 20 March 2017. All new recipients from 20 March 2017 will be denied the supplement. This will create a two-tiered system in the short term.