**Election 2019 – Effective Marginal Taxation Rates (EMTRs)**

# Why is this an issue for women?

Australia has a progressive personal income tax system. That is, people with higher taxable incomes pay more tax as a proportion of their income than people on lower incomes. This reflects the belief that people who have more money should contribute more, so the government can provide the services that Australians expect, such as health care, education and family payments.

Australia also has a targeted transfer system (or government payments to individuals and families). To a high degree, the Australian tax-transfer system targets those in need and, as a consequence, has long been recognised as prone to both poverty traps – areas where higher private income leads to very little gain in disposable income – and high effective marginal tax rates (EMTRs) in general.

EMTRs measure the proportion of each extra dollar of earnings that is lost to both income tax increases and decreases in government benefits (for example, Parenting Payment, Family Tax Benefit, the Child Care Subsidy), or increases in payments such as Medicare, or increases to the payment threshold for HELP.

Women’s decisions about whether or not to work, or how much to work, often play out differently to those of men.

For women, the financial benefits of working are affected by specific circumstances such as salary, the number and age of children in the family, use of child care and eligibility for government payments, and the income level where HELP repayments commence.

The median taxable income for women in 2015/16 was $48,690 compared to $63,430 for men.

EMTRs hit hard for those earning well below the average wage, which was around $82,000 in 2018, and are particularly harsh for women. Combined, the stacking effects for women with children particularly, can lead to punitive effective marginal tax rates: for example for women using childcare, there is a substantial financial penalty in working more than two days a week. The marginal tax rate paid by the secondary income earner in a middle-income family with two children in childcare can reach 95% of income earned (Stewart, 2018). When governments make multiple budget cuts from different social programs they interact, sometimes producing undesirable outcomes.

There has been substantial growth in women’s labour supply, growth in educational attainment, and growth in combining work with raising families. However, many more women are part-time workers, including both casual and permanent part-time, than men, and more women take time out from working and take longer breaks from employment than men. These factors combine with lower rates of pay and the overrepresentation of women in lower paying jobs. Australia has one of the highest rates of part-time work in the world.

The economy needs the labour of women: it increasingly depends upon it, and future growth depends on it. The current situation results in a sub-optimum allocation of resources which impacts on the efficiency of the labour market, affecting labour supply, labour turnover, productivity and economic growth.

**Election commitments**

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| Full implementation | Partial implementation | No or negative response |

The table below sets out how fully parties’ current election commitments address NFAW recommendations:

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| **NFAW RECOMMENDATION** | | |
| NFAW recommends that rather than cut taxes, the welfare regime should be improved along with social investments and increased wages by taking action against the spread of precarious low paid work and opposing cuts to welfare payments. | | |
| **PARTY COMMITMENTS** | | |
| **ALP** | **LNP** | **GREENS** |
| There will be an intervention in the Fair Work Commission in favour of retaining penalty rates**.**  The LNP and the ALP have promised to cut taxes, however the structure of the proposed Low and Middle Income Tax Offset will increase EMTRs over the income range where the offset is withdrawn**.** | The LNP and the ALP have promised to cut taxes, however the structure of the proposed Low and Middle Income Tax Offset will increase EMTRs over the income range where the offset is withdrawn. The LNP proposed tax cuts will provide higher tax cuts to high income earners (refer to the Taxation Paper). | The Greens promise to fix the gender pay gap and improve economic security for women through equal pay for equal work. |
| **NFAW RECOMMENDATION** | | |
| The taper rates for child care subsidies and family tax benefits should be reviewed to reduce the EMTR applicable to the second earner in a two income household. | | |
| The ALP will increase the Child Care Subsidy to 100% subsidy for households earning less than $69,000. This will taper to 60% at $174,527. Households earning between $69,527 and $174,527 will receive an increase in subsidy of about 10%.  The activity tests will remain. |  | Make child care fee free for most families and abolish the activity test |
| **NFAW RECOMMENDATION** | | |
| Budget publications that enhance transparency of budget outcomes should be reinstated, and in particular that budget data presenting projected changes to the real disposable incomes and the net tax thresholds of different household types, formerly contained in Appendix C of the Budget overview (Refer to Machinery of Government Paper). | | |
| **PARTY COMMITMENTS** | | |
| **ALP** | **LNP** | **GREENS** |
| Labor will bring back the annual Women’s Budget Statement to assess the impact of new budget measures on women and examine how the allocation of public resources affects gender equality. |  | The Greens will also work to re-introduce a Women’s Budget Impact Statement which used to accompany the  Federal Government’s annual Budget. |
| **NFAW RECOMMENDATION** | | |
| *NFAW recommends that an incoming government undertake a review of the tax transfer system that includes examining the Henry review recommendations that*  *• all welfare payments should be made non-taxable*  *• a higher income tax threshold should be established.*  *• the family-payment income test should become a standard taper of 15 or 20 per cent applying to an integrated family payment.* | | |
| **PARTY COMMITMENTS** | | |
| **ALP** | **LNP** | **GREENS** |
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| OTHER ELECTION COMMITMENTS | | |
| Commitment | **Party** | **Comments** |
|  | Choose an item. |  |
|  | Choose an item. |  |
|  | Choose an item. |  |
|  | Choose an item. |  |

Authorised by Kate Gunn, Sydney.

# Reference

Stewart, M; (2018) Submission to Senate Enquiry into Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 [Provisions] Submission 16 - Supplementary Submission 1; June 2019 <https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/PersonalIncomeTaxPlan/Submissions>