

Original  
- Full Summary Report-  
VOLUME 2  
All Focus Groups

Prepared by

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**Perceptions & Attitudes Towards the  
Current Tax and Transfer System**

prepared for

**FaHCSIA &**

**Department of Treasury**

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**Appendix A: Focus Group Respondent Profiles**

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## 1 INTRODUCTION AND BACKGROUND

Colmar Brunton Social Research (CBSR) was commissioned by FaHCSIA and the Department of Treasury to facilitate public consultation meetings and focus groups for the purposes of gaining comments back on Australia's Future Tax System Review. The public consultations were conducted in metropolitan centres, whilst the focus groups were conducted across both metropolitan and regional locations, with respondents selected to attend a group discussion based on their individual or business circumstances relating to the tax and transfer system. The focus groups were designed to as much as possible represent a wide range of different segments and needs within the community and were conducted with general members of the community who would not normally attend public meetings.

The Review Panel is to make recommendations by the end of 2009 on how to position Australia to deal with the demographic, social, economic and environmental challenges of the 21<sup>st</sup> century.

The terms of the review acknowledge the impact that the design of the taxation system can have on the growth rate and allocation of resources in the economy and recognise the need for revenue raising to be done in a way which results in least harm to economic efficiency, provides equity (horizontal, vertical and intergenerational) and minimises complexity for taxpayers and the community. Thus the review will consider six key aspects of the tax system including:

- The balance between taxation and income from work, investment and savings, consumption and the role of environmental taxes;
- Improvements to the tax and transfer payment system;
- Enhancing the taxation of savings, assets and investments (including the role of company taxation);
- Enhancing the taxation on consumption, property, and other state-collected taxes;
- Simplifying the tax system; and
- The interrelationships between the tax systems and the proposed emissions trading system.

In March 2009, the Department conducted 10 public consultation sessions around Australia that explored the following issues:

- What parts of the tax and transfer system are not working well? What components are working well?
- Are there taxes or transfers you see as fair or unfair?
- What priorities do you see for improving things that are not working well?

The Department then conducted a further 13 focus group discussions with a broad cross section of the Australian community to explore these issues further at the general community level, as well as exploring issues of interest that emerged in the public consultations.

A report has been prepared for each of the forums and focus groups conducted. This volume of the full report is a summary of key feedback and themes received from the focus group respondents only.

**IMPORTANT: This document captures the key themes and issues that were raised by attendees at the public consultation sessions. All themes and comments are conveyed in the manner put forward by participants, and CBSR has made no assessment as to the technical validity of these contributions. Rather, all comments and issues are included to present as comprehensive picture as possible of how attendees view the current system, and the key elements of the system they would like to see reformed.**

## 2 METHODOLOGY

A total of **thirteen focus groups** were conducted. Each focus group was 2 hours in duration and followed a discussion guide as appended to this document. The focus group respondent criteria and locations are shown in the table below.

No.	Group	Location (5 capitals & 3 regional areas)
1	Small Business operators (mix of industry, employing vs. non-employing)	<b>Sydney</b> Wed 8 <sup>th</sup> April 6.00pm
2	Small Business operators (including at least 4 farmers)	<b>Shepparton</b> Tues 7 <sup>th</sup> April 6.30pm
3	Individuals - single people (taxpayers), full time wage & salary earners, under 30 years, no kids, including 2-3 part time students	<b>Melbourne</b> Mon 6 <sup>th</sup> April 6.00pm
4	Individuals – mix of people who receive income support (3), retired people (pension recipients -min 2) and people who work part-time	<b>Melbourne</b> Mon 6 <sup>th</sup> April 8.15pm
5	Individuals – general taxpayers, 45 – 55 years	<b>Sydney</b> Wed 8 <sup>th</sup> April 8.15pm
6	Individuals – people who work part-time, 30+ years	<b>Brisbane</b> Tues 14 <sup>th</sup> April 4.00pm
7	Individuals – from families with children (4 with pre-school age children and 4 with older dependent children)	<b>Townsville</b> Wed 15 <sup>th</sup> April 6.30pm
8	Individuals – general taxpayers, 30 – 45 years	<b>Lismore</b> Tuesday 14 <sup>th</sup> April 6.30pm
9	Individuals – general taxpayers, 30 – 45 years	<b>Perth</b> Mon 20 <sup>th</sup> April 8.00pm
10	Individuals – people who receive income support (Disability support payment, Carer payment, Newstart allowance or Austudy)	<b>Adelaide</b> Wed 15 <sup>th</sup> April 8.15pm
11	Individuals – from families with older dependent children (female)	<b>Adelaide</b> Wed 15 <sup>th</sup> April 6.00pm
12	Small business operators (mix by industry and employing vs. non-employing)	<b>Brisbane</b> Thurs 14 <sup>th</sup> April 6.15pm
13	Small business operators (mix by industry and employing vs. non-employing)	<b>Perth</b> Mon 20 <sup>th</sup> April 6.00pm

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### 3 EXECUTIVE SUMMARY OF FOCUS GROUPS

The focus group sample was structured to include a broad cross section of the Australian community, including individual taxpayers (drawn from a range of ages and life stages), small business operators, and those who received a range of different transfer payments under the current system.

#### 3.1 General Taxpayers

There were common themes relating to the tax and transfer system which emerged for each of these different target groups. Amongst **general taxpayers** there was a range of those working full time, part time, casually or on a contract basis.

Those working for just one employer, with no significant deductions or complications, were often doing their own income tax returns with no perceived need for a tax agent or accountant. Most perceived the process as relatively straightforward. These were some of the biggest advocates of the e-tax lodgement system and described it as being relatively simple and ensuring a rapid tax return.

However, there were some exceptions to those doing their own income tax return among general taxpayers. Those participants under 30 years of age had mostly not attempted to do a tax return themselves or had tried and been unsuccessful so were using tax agents. It appeared the reputation of income tax as complex had preceded the system for this target group. The other exception were older female income earners (approximately 55 years and older). These women were extremely fearful of making a mistake and although some were doing their own income tax returns they did not make any claims for deduction out of fear of unwittingly doing the wrong thing and being penalised or losing their financial security.

Among individual taxpayers, one of the most common suggestions around changing and improving the tax system was a flat rate tax system. This was particularly favoured by some small business operators and middle income earners as a way to achieve simplicity in income tax via:

- No deductions, just a percentage of income;
- Everyone pays a flat rate; and
- Less perceived opportunity for tax to be avoided.

Middle income earners and some small business operators tended to believe they would be much better off under a flat rate tax system than the current income tax system. There was also some suggestion of making the GST this flat rate system via increasing the GST percentage to make up the shortfall from abolishing income tax. The challenge for some was how to allow for very low income earners in society, but common suggestions to maintain equity and fairness while increasing simplicity were raising the tax free threshold or having a lower 'flat rate' for very low income earners.

There were also those low to middle income earners amongst these general taxpayers who felt they were often 'just missing out' on receiving benefits for themselves or their families (due to eligibility restrictions), despite having paid all of their taxes when applicable throughout their lives. There was a sense of the government not returning the 'favour' by means testing benefits like Austudy.

The other most common belief among this group was the income tax system creating a disincentive to work harder, particularly as related to avoiding doing overtime or working a second job to prevent going into a higher tax bracket. This was thought to be one of the main reasons for a 'cash economy' existing in some instances.

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## 3.2 Small Business Operators

There were typically two main types of **small business operators** within the small business focus groups.

1. There were those who had no employees and were also employed full time or part time whilst running their own business. Those in this situation tended to participate in the discussions more from the perspective of an individual tax payer than a small business person.
2. There were those who were employing a small number of employees, and these participants were better placed to speak from a business perspective on the tax and transfer system.

A common issue for small business people was what was often referred to as the 'middle income squeeze'. This was the shared perception of always paying out large amounts of tax to, as they saw it, support the tax and transfer system, but not getting enough benefits from the system in return. There was the belief amongst small business people generally that low income earners do not have to pay as much tax, whilst getting most of the benefits, and the wealthy are able to pay experts to minimise tax, hence small business and middle income earners were perceived as stuck in the middle.

There were mixed perceptions of the GST among small business people. Generally it was perceived quite positively as a simple, effective tax that is more difficult to avoid or cheat than income tax. However, for some very small business people, typically those not employing and doing Business Activity Statements (BAS) themselves, it was perceived as too time consuming and can put a strain on cash flow when needing to pay the ATO.

Most small business people (both employing and non-employing) were using an accountant for income tax returns and saw it as a necessity given the complexity of the system and understanding what can and can't be claimed.

Overall a common theme for small business operators was the acknowledgement that they would be prepared to pay more tax in return for simplification of the system, but generally with the condition that they would be better off financially overall. For some this would mean receiving more benefits back out of the transfer system than currently, and for others this meant having 'more say' or control over how the tax revenue is spent by governments and the priorities for government spending.

The nature of the relationship between small business and the ATO was more often than not adversarial and one of frustration, with a general dislike for the associated authority or power the ATO represents, and the inevitable feelings of a lack of control or self-determination.

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### 3.3 Transfer payment recipients

Amongst the **income support recipients** there were two main types of participants.

1. Those who tended to be long term recipients and were solely reliant on income support for day to day living; and
2. Those who were working at some level or studying and were not solely reliant on income support.

The long term income support recipients had concerns that centred around feelings of lack of choice, equal opportunity and freedom once they were dependent on benefits within the transfer system. There was a sense of feeling 'stuck' in the system, especially amongst the long term unemployed who described not being incentivised to get back into work out of fear of losing benefits for the sake of limited or casual low paid work that would mean they were worse off financially. Single parents resented not having the choice to stay at home with their children once the children turned 6 years old, and although they often wanted to work they resented that lack of choice.

Those not solely reliant on income support commonly described playing a balancing game between work and benefits in order to optimise income. This often dictates the number of hours or overtime an individual can work before losing benefits. Both those in this situation and those who knew people in this situation believed that this should be a clear priority for change in any review of the existing system. There was an evident need acknowledged across groups to ensure that low income earners were able to achieve a higher income through paying less tax and therefore would place less importance or reliance on income support.



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## 4 KEY OUTCOMES FROM FOCUS GROUPS

### 4.1 What parts of the tax and transfer system are not working well?

#### 4.1.1 Income tax brackets and transfer system as a disincentive to work

The tax and transfer system was perceived across all groups as a major disincentive within the Australian community to work harder and earn more. This was a consistent issue discussed and depending on situation in life or personal experiences, the issue was looked at from the perspective of the income tax system only, the transfer system only or the interaction of both.

The personal income brackets were perceived not to be structured well. The main issue being described was the consistent issue of making big jumps in the amount of tax in the dollar being paid if you tip over into the next bracket. The most common examples used were working overtime or having a second job and being pushed into a higher bracket.

*"It's not structured properly because as soon as you earn more money you're getting taxed at a higher rate. You work hard and then you look at how much tax you get charged. You can get charged literally 50% when if you don't work for half of the year you won't be charged." (Group 8, Lismore)*

*"In the brackets, there needs to be an incentive to earn more...maybe they could adjust those a bit better so that people who do work – who put in the extra effort and do earn – make it higher so they're still getting the lower tax. But then on the other side of that, executives or whatever who're getting golden handshakes or whatever, they need to be taxed quite highly." (Group 6, Brisbane)*

The issue was explained by some as being on a low base salary and being pushed into a higher tax bracket when doing over time (i.e. taxation rates of 50%). This was perceived as being 'penalised' for doing over time and acted as a disincentive for people to work extra hours. Whilst a small few acknowledged this money could be recovered at the end of the tax year (when tax returns are lodged), there was a sense that the system needed greater flexibility so as to get this cash in the hands of workers on an ongoing basis.

This was believed to deliver a very definite lack of incentive to work among lower income earners. For farmers in Shepparton, this was a very important barrier when employing seasonal workers, as they believed it made it more difficult to get people to work long hours when needed.

This was described by some as impacting directly on hours worked, and translating for some into doing a certain amount of overtime hours but trying to keep this to a minimum to avoid higher tax. The belief was along the lines that someone can be working 60 hours a week and another person doing 40 hours a week and still only having the same amount of take home pay.

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There were a number of different suggestions regarding adjusting the current taxation brackets, with the main aim of this re-structure being to incentivise lower income earners to earn more. The suggestions were:

- Increase the tax bracket for lower income earners, so they can earn more and still be taxed at a lower rate; while at the same time increase taxation for higher income earners, such as executives receiving large bonuses.
- Provide more brackets, eliminating the steep jumps between brackets, to avoid penalising those moving from a lower bracket to the higher bracket in terms of taxation.
- Provide a sliding scale system of taxation.

Some questioned the need for tax brackets at all. The common suggestion in this instance was for a flat rate system and no deductions, which many believed would reduce ambiguity in relation to deductions and provide a greater level of transparency overall. However, participants did express concern for very low income earners in a flat rate system (given they could be significantly worse off). To address this, the main suggestion was to have a lower level 'flat rate' (e.g. a two-tier system).

Only being able to claim the tax free threshold on one job was also believed to be part of this issue and was perceived to encourage cash in hand jobs, and discourage people working more than one job or overtime. This was believed to be a particular problem for students, those working casually, trades people and generally low income earners.

*"I'm paying tax on four separate jobs where I pay tax on all of them and I can only claim the threshold on one out of the four and the rest of them I have to pay the maximum amount of tax. There are some weeks I may as well not work at all because I would be better off sometimes."* (Group 10, Adelaide)

*"The tax-free threshold needs to be raised. I can remember when I was working part-time and living away from home. I got a small amount of Rent Assistance, but even then, I was still eating baked beans constantly. My total annual income came in around the \$10,000, and to lose so much tax..."* (Group 12, Brisbane)

Another perceived inequity in the current tax and transfer system was those individuals receiving a transfer benefit and having the payment adjusted down based on only a small amount of additional earnings.

*"The problem is not so much the problem of paying more tax but the problem of overtime affecting benefits. Working overtime you are still paying the same rate of marginal tax but losing the side Centrelink benefits."* (Group 13, Perth)

*"I have one member of staff who is a single mother who turns down work as it will affect taxation and other transfers. My business is seasonal and you have to work when the work is there, there is no incentive to work because of this."*  
(Group 1, Sydney)

This is perceived to be a major issue in the interaction between the tax and transfer system. One group participant in the small business group in Perth described an employee of his who was just on the border in terms of income and could easily tip over and lose some of the transfer benefits for his family, like the Health Care Card. Therefore this employee will turn down work to ensure that he stays under a certain amount.

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*“Problem is where people lose benefits around \$25k to \$30K, so the person earning \$25K with a couple of kids, earning benefits is better off keeping his income at \$25K than earning more and losing benefits.” (Group 13, Perth)*

This issue of wanting to remain in a lower tax bracket is believed to be contributing to what the Perth small business group called ‘the cash economy’, and believed that if this cash economy problem was tackled it would increase tax revenue that is currently being lost.

*“You can’t claim tax from a second job. Creates a cash economy. Instead of getting \$15 an hour will do it for \$12 to avoid tax.” (Group 13, Perth)*

This type of situation was believed to illustrate the lack of incentive available to motivate people to move into jobs and off welfare payments. For those expecting to earn only a low income, there is the possibility that they will be worse off when working than on benefits. This was expressed first hand by some of the long term unemployed in Adelaide who described the fact that as soon as an individual starts working at all they start to lose benefits and this very much discouraged them from working even some casual hours, as they believed they were better off on Newstart.

*“Newstart isn’t too crash hot either. The fact that there is a very steep line between employed and unemployed and as soon as you start working you don’t certainly get as many benefits.” (Group 10, Adelaide)*

*“Anytime I’m offered work I do it then you look at your Centrelink payment and wonder why you did it. You may get \$50 out of it then you gotta take it off your Centrelink. I will keep doing it for now in case anything does come up. If there was more incentive then.....” (Group 10, Adelaide)*

*“One of my jobs is with TAFE and when I do work for TAFE I don’t get paid for 6-8 weeks but I have to declare it to Centrelink so some weeks that leaves me with \$100 a fortnight to live on, that’s a really sucky part of the system.” (Group 10, Adelaide)*

#### **4.1.2 Abuse and over-use of transfer system**

Abuse of the transfer system tended to focus most on those receiving unemployment benefits. These perceptions were strongest among small business operators and middle income taxpayers. Although most participants across groups were supporters of a social security system overall and the fact that there are many that do need it, many were not at all accepting of any perceived abuse or unfair use of the system.

The general consensus was that the unemployed are often being paid too much to stay at home, with some comments that unemployment benefits are as much as some individuals were earning, therefore there is no incentive to work. Across groups there was strong support for food vouchers, basics cards and ‘work for the dole’ to minimise abuse of the benefits. There were suggestions of limiting the timeframe for unemployment benefits or using taxes more effectively for job creation to minimise abuse. There was also mention of a need to continue to ensure people do have to pay back money if they cheat the system.

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*"There's no incentive for the unemployed to get off their bottoms and go out and work, because they can get these handouts. People aren't prepared. And there's a difference between people who've been put off their work and need more, but a lot of people don't want to work and never plan to work and they get this money."*  
(Group 6, Brisbane)

*"They should perhaps not give them money but food vouchers. Centrelink has Basics Cards to buy food, clothing, things for the household. They are only given a percentage on this card so they can't blow it."* (Group 11, Adelaide)

*"Need to reform the bureaucracy, if it was less attractive to be on benefits, I like the idea of the voucher system. If you are receiving money from the Government you should be grateful. We are privileged to live in a welfare state....."*  
(Group 5, Sydney)

Some of the harshest critics of unemployment benefits were some small business operators in Shepparton and Perth who believed that most are not deserving of benefits, are cheating or 'milking' the system as they are not willing to help themselves.

*"You're giving, giving, giving and working hard for dropkicks. Shouldn't be any unemployment people just don't want to work."* (Group 13, Perth)

*"During the fruit season you can't get people to get out of the queue to come do it, you can only get backpackers. And if they're made to do it they come and throw the fruit on the ground and you just give them the arse, they just abuse the system and then there is another group that will work under false names and get benefits too. We've all got these stories so that's how we know the system is not working."* (Group 2, Shepparton)

Other benefits that these groups believed were easily abused were 'single mother's benefit', Baby Bonus, benefits for newly arrived immigrants and those with indigenous or Koori ancestry. The underlying belief here was that the abuse of the transfer system was the main reason they personally were paying so much tax.

*"One thing that is a touchy subject is our Aboriginals. A full blooded person no worries but there's people with only 2% and they get all the benefits."*  
(Group 2, Shepparton)

*"Look at the amount of women having children so they can get the Baby Bonus. It's not encouraging them to do the right thing."* (Group 13, Perth)

*"It's affecting the amount of taxes I pay, it's a problem. Cash going out doesn't match cash coming in."* (Group 13, Perth)

There were also those within the groups (both taxpayers and those receiving unemployment benefits themselves) who believed more strongly that the tax and transfer system was perpetuating the problem of perceived abuse, and it was not necessarily the individual recipient at fault. These individuals believed there needed to be more incentive built into the system to ensure people can work than relying on benefits. For example, allow people on the border line income wise to retain benefits like the Health Care Card and lift the amount that they are allowed to earn.

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*"They are being paid to stay at home just as we said before, there's not enough encouragement for them to go out to work. For a while I worked part time so I was getting some Centrelink assistance. I got offered to go full time. By the time I worked full time and lost my benefits I was actually behind so you are not encouraged to go out and get a full time job. It would have been easier if I had stayed part time and had all these fringe benefits." (Group 11, Adelaide)*

It was argued by a number of participants that the dole payment amount was not too high, but in fact taxation for low income earners transitioning to work was too high. Suggestions were made to lower the taxation on lower income earners, particularly those re-entering the workforce, increase the tax-free threshold and/or provide a lower level of tax (or no tax) for a set period (e.g. one year) for those transitioning into the work force.

Similarly, there was some specific mention among the individual taxpayers under 30 years that people do not have to be earning very much before losing their Youth Allowance altogether. As many were recent students themselves, they were aware of students on Youth Allowance who had no incentive to work for this reason. The belief was that there should be an increase in the amount individuals are allowed to earn before losing the Youth Allowance, to encourage people to work (they believed it was currently only \$120 a week). Paying income tax on income including Youth Allowance was also perceived as unfair and adding to financial difficulties as a student.

*"I think tax for students is really bad because I get \$300 maximum per week and I get taxed like \$70 and I am a student so what that leaves me \$230 a week and that's with maximum weekly earnings with my job. I might get it back next year so what's the point in taxing me then? And then how do you pay for your bloody uni course and all your books and materials." (Group 10, Adelaide)*

#### **4.1.3 Income tax too high**

The income tax system was generally not perceived to have the right balance in terms of who within society is paying large amounts of tax, with middle income earners and small business people seeing themselves as having a very heavy burden in terms of income tax. These participants believed that those earning over around \$120,000 or more per annum should be paying much more income tax than they currently do. Many also felt that even though they were paying what they considered high income tax (and there should therefore be plenty of revenue of Government to use improving society), it was being often perceived to be wasted in the way government spends it and on the cost of running the system itself (referring to the administration and complexity of the system).

*"Everyone has to pay tax but I think that the middle people are the ones paying the tax. Lower people aren't. Very wealthy people can minimise their tax. The middle people are really being squeezed." (Group 13, Perth)*

There were those wage earners who were working long hours and getting paid for overtime and therefore ending up in the top tax bracket. This was very much perceived as being penalised for working hard.

*"If you work a 12 hour shift not through choice then why should you have to pay 2 days of your working week to the government. If you're working hard for the money then you shouldn't be penalised. Unless there are ways of minimising tax then you are paying high amounts of money." (Group 9, Perth)*

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*"If you get to the stage where you are at the top of your range you work harder and harder and then you flip into the next tax bracket all your money is going and you get less money in your hand, there is no incentive for people."*

(Group 11, Adelaide)

Once again, in these instances people believed they would be better off with a flat rate income tax, lifting the tax free threshold from just \$6,000 and ensuring big business pay more tax. However, not everyone agreed with big business having to pay more tax with concerns this may affect their ability to employ people.

*"Maybe really big business should be paying more tax to cover the lower income workers, I mean big giant companies."* (Group 11, Adelaide)

There was also the belief among those on income support and/or those working part time that the less well-off or low income earners are required to contribute too much in terms of tax compared to the very well-off within society. This was particularly mentioned regarding students and pensioners receiving a benefit; tax in these instances was perceived to be too high. It was recognized that some students (particularly those accumulating a HECS debt) were working many hours per week and studying; they should be given an advantage through more leniency in the amount of money earned while receiving benefits, and/or lower taxation rates. Free university education was suggested, however not everyone agreed with this.

*"They take too much from the less well off.....I've heard shocking stories about how much tax people pay."* (Group 4, Melbourne)

*"I got taxed a sixth of my pay recently. Austudy covers my rent and basic food, but petrol and bills is what comes out of my work."* (Group 6, Brisbane)

*"My university student daughter works 30 hours a week and studies, and I feel that puts her at a disadvantage. The tax there should help them – it could come down a little way....."* (Group 6, Brisbane)

There were also older low income earners or income support recipients who described a lifetime of paying full income tax (not claiming anything on their returns) out of fear of accidentally doing the wrong thing. There was a feeling that there are contradictions (even among tax professionals) about what can and can't be claimed. This issue was directly linked in their minds to the complexity of personal income tax and felt that they had preferred to pay too much tax out of fear.

*"I've always paid full tax just because if there is any issue they come to you, and this is about fear of doing something and losing your home."* (Group 4, Melbourne)

*"I was just worried sick that ....there is that awful fear. I didn't claim anything."* (Group 4, Melbourne)

#### **4.1.4 Complexity of income tax system**

This mainly related to consistent comments across focus groups around the need to use accountants and the fact the system is now too complicated for the average person (and in particular with the added complication of running a small business). Some older participants



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reminisced about the days when you could do your income tax return yourself, but were now completely confused by what they could and couldn't claim as deductions.

*"Business people used to do their own tax. Father used to do his own tax but nowadays ... more accountants than ever because aren't game to do it themselves."* (Group 13, Perth)

Some mentioned the fear and intimidation of being audited and a desire for a simple explanation of what can and can't be claimed. There was the 'fear factor' of making a mistake and getting a huge tax bill, and for these people an accountant was about peace of mind in this sense. There were also some who believed the income tax system is currently set-up so an individual fails at understanding it and the ATO gets more revenue.

*"I agree that there's a real fear factor there for me, either I'm not going to fill it out properly or I'm going to make a mistake and get this enormous tax bill. Just this peace of mind that the accountant knows what she's doing and don't have to worry about it. I feel much safer letting her handle it rather than myself."*  
(Group 8, Lismore)

Most small business believed it was an absolute necessity to use the services of an accountant due to the complexity of income tax, and accountants were described as a very expensive service to use. The farmers in Shepparton reported paying between \$3,000 and \$5,000 annually in accountants' fees, and described having to do a lot of the preparation work before they go to the accountant in addition to this.

*"With an accountant you have to do your tax before you take it in and if you don't it's going to cost five grand or something. I think the CD package that Government has handed out to be able to do your own is absolutely fantastic. If you don't nail your accountant down to precision then they could charge you a disgusting rate."* (Group 2, Shepparton)

*"Not knowing what you can and can't claim. Go to an accountant and have to spend money for them to know what is going on."* (Group 13, Perth)

In addition to having to use an accountant as a small business person, the additional stress and time pressure of administration and book keeping (in meeting tax obligations) was also mentioned. Even when using an accountant it was mentioned how much time consuming work has to be done to prepare everything for the accountant to work on.

*"Maybe the tax department could pay us for collecting it for them, it is added stress as far as being a business owner is concerned, why not just GST?"*  
(Group 1, Sydney)

Given these pressures, most small business people across the groups argued that the income tax system needs to be simplified. They believed that those who can afford expensive accountants are saving thousands, whilst others miss out.

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*"Simplify the act so everyone can understand what's going on. You can then still choose an accountant to do it or you can do it yourself. Because the tax system is so complicated and so many fine print legal loopholes is where these guys get away with it. And really we're not doing the right thing by the country. The people who can afford the bigger tax firms get away with millions. The smaller person working overtime has no escape."* (Group 2, Shepparton)

*"There's been things in the past that I should have claimed tax on but didn't and my husband as a mechanic is always buying tools and it just seems to be all outgoing kind of thing. You hear of all these others getting money back at tax time but we don't and I think are we doing something wrong because we don't understand it or is it that my accountant is no good."* (Group 8, Lismore)

Some participants suggested a refund system like the Medicare system on professional accountants' fees, rather than just claiming the fees as a tax deduction. There were some group participants who perceived that free assistance with a tax return had existed in the past but no longer exists, although one pensioner believed this type of assistance does still exist.

*"Service should be put out there for tax help, why should you have to pay for a service where the government is taking money away from you."* (Group 9, Perth)

*"Years ago there used to be a system where you could go and use their services for free."* (Group 4, Melbourne)

*"Do something like what they do with Legal Aid....."* (Group 4, Melbourne)

This was not just the case for small business people. General taxpayers under 30 years of age also described having to use an accountant or tax agent to do their income tax return. The reasons were believed to be the complexity of language used in the system, complexity of the forms and the explanations of what can or can't be claimed. The overall feeling amongst these participants was that they had a lack of knowledge about the income tax system and the belief that they are often missing out on money that could be claimed back, or could be incorrectly claiming something that they are not eligible for.

*"Most people have to go to an accountant, for one it's not that simple. I didn't really try to understand it too much, just go to an accountant and then you have to pay them."* (Group 3, Melbourne)

*"So many things I wouldn't even know, and what you're eligible for is about 10,000 pages!"* (Group 3, Melbourne)

Some had in the past attempted to do their own tax returns but had given up because of the complexities. The short tax return form was also mentioned as not really making a tax return easier for an individual to do themselves because it doesn't explain what can or can't be claimed in a simple manner and appears to be designed for businesses not individuals. One suggestion was for a simple check list of what can or can't be claimed for specific industries that is distributed to employees via employers.



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*"Yeah, I've tried and failed and then been very annoyed about getting in touch with my actual situation and how it's viewed and it does seem like a different language but it really does seem like an accountant is the easiest and best way. I just have my own personal problems with bureaucratic papers."*

(Group 3, Melbourne)

Even among those with simple returns, who were doing their own returns (e.g. only one employer), the Tax Pack was described as too thick and complicated, the jargon or language used difficult to understand and that too much detail is required overall in a tax return form. These individuals believed there should be a free service provided by the ATO to assist with completion in a similar way to a tax agent.

*"Too many pages. Should be a slim line guide and if need be you can go to a bigger guide."* (Group 9, Perth)

There were suggestions of a need for education on how to complete a tax return and concerns around making a mistake and being penalised down the track (there were comments that it could happen 5 years on).

*"It's a self assessment if you make a mistake you have to deal with it down the track."* (Group 9, Perth)

The complexity of the tax return form was perceived to reflect the complexity of the system, and across groups most believed the system needs to be simpler and more transparent. Overall most agreed that they would be happy to have a simpler system where they knew exactly what they owed in exchange for not being able to claim any deductions. Once again the common solutions put forward to address this complexity was simplification through a flat tax rate (no tax returns) and GST or a GST only.

*"Get rid of the whole lot and just have it as a GST which goes up to 12 or so percent. One system."* (Group 13, Perth)

Given the complexity of the system, some small business participants did describe difficulty sourcing information from the ATO website and phone system. This was mainly among the small business people in Brisbane, where there was general agreement that the ATO website was difficult to navigate and participants had difficulty finding the information they needed. A suggestion was made to provide more information in a Frequently Asked Questions (FAQs) format on the website; as it is so much quicker and easier to find information this way rather than phoning up about it.

*"I find the ATO website hard to find my way around...And because I don't know the right terminology, I found it really difficult to find what I was looking for. It's too wordy."* (Group 12, Brisbane)

*"It's like lawyer-speech, the jargon on the ATO website. If you don't know what you're looking for and how it's worded, it's hard to find."* (Group 12, Brisbane)

In relation to the difficulty sourcing information, participants were also not satisfied with the lack of advice provided to small business. Business owners would like to see this improved through the provision of a free service (by the ATO) for small businesses that are considering expanding. At present, small businesses are paying a third party for this advice at high cost and then there is no money left over to implement changes. They would like free information about the health of their business and whether it is worth expanding. From this suggestion it was determined that some small businesses are using their profit to fulfil their tax

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obligations (through paying for a tax accountant), thus limiting their ability to develop their business. Some suggested the Government should consider extending the current scheme associated with Newstart (that allows grants provided for business schemes) to cover small businesses.

It was also believed that individual workers at the ATO did not have enough knowledge or training in relation to some parts of the taxation system.

#### 4.1.5 Unable to claim interest on home loan in tax return

This was thought to be an illogical part of the personal income tax system in that an individual can only claim on investment properties through negative gearing currently. The belief was that this should be the situation for buying your primary home to assist with home ownership in Australia, and do away with this benefit for investment properties.

*"There are a lot of countries where the interest is tax deductible on buying your home but on an investment property! I just think it's the wrong way around. So it's more of a tax deductible issue."* (Group 8, Lismore)

#### 4.1.6 Tax avoidance

The complexity of the income tax system was viewed as being directly related to how the wealthy are able to pay experts and can 'use' the system to their advantage, for example setting up family trusts and finding loopholes. There was an overall belief that there must be too many ways to cheat the income tax system given that they hear in the media and anecdotally about the extremely wealthy being able to avoid tax.

*"I've got a brother in law and he would be earning \$5-6 million a year and he pays virtually no tax because he is with the Reserve Bank and the board and he just knows how to not pay tax, for some people it is the more you've got the more tax you pay, it's the ones earning \$100K-\$200K they might be paying a lot of tax but the ones with a lot more....."* (Group 10, Adelaide)

*"The very wealthy are getting very wealthy. They don't pay as much tax as people earning less. It's just wrong and they know how to use the system. Not everyone has a conscience."* (Group 13, Perth)

*"They should stop the ways for wealthier people diverting their money and lesser off people having to do their tax themselves, that should be looked into once they get a certain amount of money their morals go out the window."*  
(Group 4, Melbourne)

The prevalence of a cash economy in Perth was also mentioned as another way in which tax was being avoided.

*"The high tax rates mean labourers do cash jobs to keep them under the next highest tax bracket, everybody benefits but the government."* (Group 9, Perth)

There was a general perception that larger companies and wealthy individuals are avoiding paying tax (through loopholes) because they can afford to pay good accountants; while small business and low income earners have little understanding of taxation requirements (and thus cannot identify and exploit these loopholes). The system could be made better, fairer and more efficient through ensuring that everyone is paying the right taxes and

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providing education about the deductions that companies, particularly small business, can make.

*"I can't get deductions on fabrics we purchase for the shop. I get a small deduction on movies or DVDs, because they're research, but I always hear stories about other people that are paying a lot less tax because they know their way around the system. The tax agent is doing the best he can, but because of the nature of the business and the way we run it and the materials we use – the tax system is not set up to help out a person like me." (Group 12)*

*"I think that people who are earning over \$200 000 a year – look, if you're earning \$50 000 a year, you're just barely comfortable. But the loopholes that the over \$200s get through – those loopholes need to be closed. It's just not fair that the rich get loopholes. The rich get richer and the poor get poorer." (Group 12)*

Big business or companies were also believed to be able to do deals with government in Western Australia to avoid taxes like Land Tax and are perceived to know lots of loopholes that the 'small person' misses out on.

There was general agreement that executives receiving large lump sum payments should be taxed at a high rate (e.g. 95% was suggested) or given the option of putting this money back into the market (to ease the current economic crisis).

In relation to wealthy individuals benefiting from the system, a participant in the small business group in Brisbane reported that there is currently a health assistance scheme that allows specific subgroups to claim dental up to the value of \$5000, regardless of their incomes. There was agreement that free or subsidised medical treatment needs to be means tested to ensure it is only being accessed by those that really need such assistance, rather than those who could easily afford such treatment themselves.

*"...for the last couple of years there's been a health assistance to a certain subgroup of people in the community. This is for dental up to the value of \$5000. I've spoken to a dentist who has millionaires coming in and getting this work done, and it's not means-tested or anything." (Group 12, Brisbane)*

#### **4.1.7 State taxes and taxes that involve governments 'double dipping'**

One concern expressed across a number of groups were so called 'taxes on taxes'. The prime examples mentioned were fuel taxes, tax on superannuation, road tolls (in addition to other State transport related taxes), and Capital Gains Tax. These types of taxes are resented as 'straight revenue raising exercises, with no clear purpose'. They were raised as more of an issue in New South Wales and Victoria, although Stamp Duty, fuel tax and Capital Gains Tax were consistently mentioned as not working well across all groups. Sydney participants felt New South Wales had the highest taxes out of all the States, with the high cost of Land Tax and the need to still pay Stamp Duty when purchasing a property. These taxes are believed to be excessively high and are seen by many to be blatantly raising large sums of revenue.

Both Land Tax and Capital Gains Tax are perceived to discourage investments, and Land Tax was seen as another tax that is 'continually increasing'. Some described it as having tripled in recent years because of increasing property valuations. Both of these taxes were mentioned as outdated, pure revenue raising taxes and many people believed that taxes like these were going to be abolished when the GST was introduced.

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*"Land Tax is a restriction for people wanting to develop. Investments get stifled because government is too greedy and they need a better way of getting tax in so it covers everybody."* (Group 13, Perth)

*"I thought GST came in to get rid of these silly taxes. Land Tax is a State based tax, they have been talking about abolishing it for a long time."*  
(Group 11, Adelaide)

*"It's another thing like Stamp Duty, I mean what is that for? Anyone that's trying to have a bit of a go just gets hit with that and you might as well sit on the dole."*  
(Group 2, Shepparton)

*"Land Tax is not working well in NSW, they charge too much, it's a massive tax. Revenue raising, they don't know how to run the State."* (Group 5, Sydney)

*"If you buy a car you pay transfer fee on the car, tax on petrol, tolls, if you buy a house you have Stamp Duty...you can't do anything without tax, tax, tax."*  
(Group 5, Sydney)

For the small business operators and farmers in Shepparton, fuel taxes were used as a prime example of government 'double dipping'. Tax on fuel was seen as a significant added expense and cost to running a small business and some in Perth related how high fuel prices had forced suppliers like couriers to add their own independent fuel levy to invoices. This is on top of a range of other taxes and levies.

*"The double tax on fuel, the GST on it. They said they would get rid of the GST on it but they haven't. It has GST and excise. The Government is just greedy."*  
(Group 2, Shepparton)

*"If there is a GST on fuel like everything else has then should get rid of all the other taxes on fuel."* (Group 13, Perth)

*"The WET tax on wine is a bloody disgrace, there is 29% on that and don't forget the Stamp Duty."* (Group 2, Shepparton)

It was thought by some participants that **taxation on bank and trust accounts** should be stopped. People felt they work very hard to provide for themselves and their family while also contributing to their own superannuation ready for retirement, and as such should be entitled to all of this money without being taxed on it. It was also felt by some that if superannuation is to continue to be taxed it should be taxed on the way in but definitely not on the way out when you need it most. Ultimately, taxation on these types of accounts was thought to be unfair as people are already paying enough tax on their wages and salaries.

*"It's tax free on the way in, the danger is people who retire can blow all their money...if we could live on it like a pension and draw on it monthly or yearly and have it tax free [that would be ideal]."* (Group 8, Lismore)

There was also mention of **payroll tax** by small business people. This was perceived very negatively, as most viewed this as having to pay the government to employ people. It was thought to be outrageous by some, especially in a time when employing people should be encouraged.

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In line with comments on the Federal system, state taxes were also perceived as complex and difficult to understand for the average citizen. One example here was from an individual who had recently needed to navigate the complexity of Probate in Victoria when her mother had died, and not having any experience or understanding of how it worked. Similarly Stamp Duty was perceived as just another additional burden outside of income tax. It was perceived to be about paying government in order to be able to buy a house and there was confusion as to why it exists.

*"I've just been through the death of my mother and the probate and I had no idea how much was involved when you're in that state. You're grieving, it's too complicated."* (Group 4, Melbourne)

*"We've bought a house in the last 8 months and stamp duty, that is an absolute rip off-we were gob smacked & couldn't believe it."* (Group 4, Melbourne)

**Taxes on cigarettes and alcohol** were also put in the same category as fuel tax for some. These were termed by one respondent in Perth as 'tax grabs' or quick fix taxes. These items were perceived to have multiple taxes on them and are seen as a way for governments to make up any shortfalls in funding from income tax and people avoiding tax. It was perceived as particularly wrong to be taxing an addiction (such as smoking). There was also the common perception of lack of transparency around these taxes in terms of not tangibly being able to see the money going into health or education, and the sense it just goes into one big pool of money. Many said they would like to see a clearer link between these taxes and the health interventions Government implement to encourage healthier lifestyles.

*"I don't like how government can take control of the tax system for tax grabs. I'm a cigarette smoker and they want double the tax. I see that as being a tax grab, Alcopop tax as well."* (Group 9, Perth)

*"They can tax whatever level they want cause will always go to the pub for beer. Smoking is an addiction which means you are taxing an addict whatever level you want. The money they get doesn't go into better health or education, it goes into whatever part of the tax system needs some extra funds."* (Group 9, Perth)

One importer in Brisbane described having to pay five taxes when bringing goods into Australia. It was questioned whether all of these were necessary and believed these taxes required review.

*"Something that affects me – there are so many taxes to be paid. Five taxes when I bring things into Australia – they really need to do something... It'd help if they could look at those, because I don't think some of them are legitimate taxes."* (Group 12, Brisbane)

One perspective on the reason for all of these 'taxes on taxes' was that such a large number of taxes and high rates of tax are required to support a massive bureaucracy behind the tax and transfer system (due to its overall complexity). This was difficult for many to accept, particularly as they feel they are not seeing any value for money from such a significant ongoing cost.

Developing this line of thinking further, some of the individual taxpayers in WA and NSW discussed abolishing State taxes altogether and instead having a centralised collection point in Canberra for taxes. A small few were also advocating removing State Governments as a layer within the system, not just as a tax collection point.

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*"There should be no State taxes, just one Federal tax and Federal Government should divvy it up and treat State Government like a local council."*

(Group 9, Perth)

*"There is a massive bureaucracy, needs standardisation."* (Group 5, Sydney)

*"We don't need seven education systems, seven health services."*

(Group 5, Sydney)

#### 4.1.8 Burden of GST & BAS

Despite being outside the scope of the review, the goods and services tax (GST) did attract discussion across the groups (as a key part of the overall system). Although the GST was seen to be working well overall, there were a small few who were finding it difficult to deal with, and this was more common for those small business people who were doing the BAS themselves. Some described having to borrow money or spend more money than they are making to pay the GST to the ATO and deal with BAS (cash flow issues). The paperwork was described as time consuming, and some perceived they were acting as free tax collectors for the Government.

Some suggested the system could be immediately simplified if GST applied to all goods and services. Those businesses selling goods and services with and without GST noted that the calculations required to delineate those items that did or did not attract GST is a time consuming exercise.

*"One of the things that is a bit of a nuisance to us is that some things have got GST and some haven't. Invoices that come through – you've got to split them up into, you know, two areas – those you pay GST on and those you haven't, your margins, all that. I work it all out on a spreadsheet, but it's a nuisance."*

(Group 12, Brisbane)

#### 4.1.9 PAYG Burden

An issue for small business people (and farmers in particular) was where the ATO estimates income for the new financial year based on the previous year's income. Some noted there can be huge variations in income from year to year based on seasonal or climatic factors, as well as the 10% extra on top of estimated income from the previous year. If revenue or income drops, as with the current economic crisis, participants described being out of pocket throughout the year and needing to find the extra money to pay the ATO. While most noted any overpayment would be recouped at the end of the financial year, some perceived they were facing potentially unnecessary cash flow problems while the ATO benefited from receiving this money upfront.

*"If you're self-employed and not guaranteed to make a certain amount yearly the tax office will estimate how much you're going to make plus ten percent more and then you're finally paying that extra tax when you're income is coming down."*

(Group 2, Shepparton)

*"You've got to forecast your earnings and if your revenue drops substantially then you're out of pocket."* (Group 8, Lismore)



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*"What we're saying is why expect 10% more, it could be that it's 10% less so that means you have to find another 20%." (Group 2, Shepparton)*

#### **4.1.10 Compliance issues for those businesses employing staff**

There was clear agreement among the small business people in Shepparton that the added burden to business when employing people was significant. For example, paying work cover and superannuation was perceived as 'a privilege' for workers by some small business people, as opposed to a rightful entitlement enshrined in law.

*"Here's an idea, the 9% we pay our employee for super, why can't we take that off something else? Why can't the government refund us that money or another incentive? Every month I have to write that cheque out for 25 staff."*

(Group 2, Shepparton)

In addition, some business operators believed that local labour hire contractors were abusing the system. Given the large need for casual labour in the agriculture sector, there exist labour hire businesses to supply the demand - but farmers believe they are often cheating the system in terms of employing workers.

*"We have contractors around this area that hire out labour and they can charge the farmer all the correct rates and they hire backpackers and pay them. So they don't fulfil their obligation in paying the superannuation and the tax etc etc...."*

(Group 2, Shepparton)

#### **4.1.11 Lack of transparency or control over government spending of taxes**

At a macro level most people are very accepting of the need to pay taxes in order to support the running of the nation. However, the main dislike of taxes was the lack of control or awareness of exactly how the money is prioritised and spent. There was a desire for a simple profit and loss style report on the country to increase transparency of how tax money is being spent.

#### **4.1.12 Complexity of the transfer system**

Those with direct experience of the transfer system described difficulties in applying for, maintaining and transitioning backwards and forwards in terms of eligibility for income support payments. Some described the difficulty in not knowing or being able to find out exactly what they are entitled to, with the added complexity of paperwork, procedures and application forms. They also mentioned the issue of people often coming up against ambiguity and different interpretations of the rules amongst Centrelink staff (because the system can be so complex).

The need to continually fill out complex forms, report earnings and visit Centrelink offices to re-register was described as putting additional stress on individuals already feeling vulnerable. There were examples of adult children still living at home not able to fill out forms for themselves (e.g. Youth Allowance) because they are too complicated, lengthy and detailed. These adult children were often getting assistance from parents to fill out the forms for them. Overall, there was a strong demand for Centrelink's operations and administrative procedures to be simplified.

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*"(With regards to Centrelink) you really have to ask advice about everything. My daughter she's 16 and trying to work out how youth allowance works. (I had to take the form into) Centrelink so they could help me fill it out."*

(Group 7, Townsville)

*"Centrelink is really hard, just a minefield, not an easy process for those who are finding it tough. When you go up you think you have all the paperwork and you don't. They even say they don't know."* (Group 5, Sydney)

*"It discourages people from applying because of all the paperwork and you have to stand in line, all because you have 99% of people who are honest but there is the 1% who aren't so they have to put these forms into place to stop these people cheating the system."* (Group 11, Adelaide)

*"Both of my children received Youth Allowance and the application form was 38 pages. My son needed help. Some questions to an 18 year old seemed ambiguous. Different people at Centrelink had different interpretations of the rules."* (Group 5, Sydney)

There were concerns for some around having to pay back part of a Centrelink payment. This occurred primarily in relation to Family Tax Benefits, but also with adult children on Youth Allowance who are working casually and needing to estimate ahead what they will earn in a given fortnight.

Currently with Family Tax Benefits, participants noted that families are required to estimate their yearly income at the beginning of the year, and if the estimation is wrong (i.e. the family earns more than estimated) they are required to pay back any benefits received over and above that lower estimated amount. This penalty was considered 'enormous' in some cases, and very difficult for people to pay back in a lump sum. Most participants advocated a return to the old system in which income could be adjusted as family income fluctuated or a circumstance changed.

Some suggestions to avoid having to pay back benefits received were:

- Base the income on your last tax return
- Estimate earnings much higher than you would expect (e.g. three times as much)
- Opt to receive the Family Tax Benefit at the end of the year, rather than throughout. However, in response, it was pointed out that the Family Tax Benefit is beneficial throughout the year, when it can be used on a fortnightly basis to help pay for necessary items.

*"Is this where I can talk about the family tax benefit? I loathe the system with a passion bordering on the psychotic, because it relies on you having to estimate, at the beginning of the year, how much your income is going to be. And if you get it wrong, you have to pay back anything from the beginning...We're facing that situation this year, because I started an unplanned job. My income has now gone way above the estimate. I've let them know, but we still face the prospect of having to pay back all that money."* (Group 6, Brisbane)



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Other examples were the difficulties in continually needing to estimate income when receiving single parents' pension or child care rebates, as experienced by employees of group participants. This was felt to be a very difficult task for someone working casually and who does not have guaranteed hours. The consequence of unintentionally but incorrectly estimating income and then needing to pay money back, is felt to be an added stress or pressure for those often already in difficult circumstances.

*"I estimated wrongly and I had it written on a piece of paper and then when I went in there is a discrepancy that I underestimated, she said to me look that is not very close that estimate and she said in the future over estimate."*

(Group 4, Melbourne)

*"You have to ring up to find out how it's going to affect their benefit every three months and it can affect the amount of child care that I pay. I have to pay the larger amount even when I'm earning a smaller amount. I'm happy to pay my way but every three months my amount changes."* (Group 1, Sydney)

There was agreement that people can fall through the gaps in times of genuine need due to difficulties in applying for benefits (especially unemployment benefits). A female who had recently become unemployed described needing to survive on no income for a period of time before receiving benefits as she had only had a low income previously so had no savings, and also had no family support available. Many believed that all the checks and balances do make it difficult for those in genuine need at times.

*"The more difficult they make it the less claims they have, they have made it too difficult for the genuine receivers and are not catching the fraudsters."*

(Group 5, Sydney)

Inefficiencies within Centrelink were also mentioned with regards to overpayment. It was believed that small overpayments (e.g. \$30) were 'not worth following up on' and instead time would be more efficiently spent investigating those that are taking greater advantage of the system. Additionally, it was believed that individual workers at Centrelink often come up with different payments figures (resulting in wrong payment amounts), and that greater consistency is needed.

*"And it depends on who you get – you'll get a different figure depending on who you talk to, and sometimes they make horrible mistakes. Once I had the tax person ring me and she said, "You've been overpaid," and it was about \$30. And she had worked for weeks on this. The man-hours that had been lost for that thirty dollars – get to work on someone who's been doing the system out of thousands! And it was their mistake, not ours."* (Group 6, Brisbane)

Overall, some suggested it would be preferable if the administration of the tax and transfer system were linked. For those dealing with both the tax and transfer system (for example the ATO and Centrelink), it would be beneficial to have personal details and files available across all departments. Advocates of such an approach thought this would simplify the system for both the Tax Office and individuals. However, opponents to this approach noted their reservations due to potential privacy issues arising from information sharing across departments.

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*"I don't know if this is particularly with regards to the tax and transfer system itself, but the fact that they're not linked – like, you ring up Centrelink and it can't just draw on – you would think, in this day and age, that they should just be able to draw on from other departments, but it's really complicated and a real problem."* (Group 6, Brisbane)

#### 4.1.13 Transfer payments not enough to live on

Amounts paid to benefit recipients including those on student allowances, the aged pension and disability pension were perceived by most to be too low. It was suggested that these payments and rent assistance required adjustment in line with current living costs.

As detailed previously, there was disagreement regarding payment amounts for the unemployed. Some perceived the amount paid to be too high (and indeed encouraging long term unemployment as a lifestyle choice for some), while others drew from experience and knew these payments were difficult to live on.

*"What we earn doesn't keep up with how we live (what it costs us)."*  
(Group 7, Townsville)

*"It's very hard to live on \$200 a week. Rent would take at least half of that."*  
(Group 6, Brisbane)

#### 4.1.14 Aged Pension

The aged pension was held up as a strong example of an aspect of the transfer system that is very unfair in the sense that it is generally believed that old people are not receiving enough to live on with the rising costs of living. Many strongly empathised and identified with pensioners as 'battlers' in Australian society. These perceptions ranged from being based on direct experience of friends or relatives to media reports on the plight of pensioners. There was some debate around this among some groups, but on the whole most who had grandparents agreed and knew of people on the pension who could not live comfortably on the payment. Some believed pensioners are living on the poverty line after paying bills and expenses e.g. only \$20-\$30 left over each week.

*"A lot of those old aged people haven't been wise to the system and dutifully paid everything without question and now I don't think they get enough money."*  
(Group 11, Adelaide)

*"Is a huge problem, especially when you see like at Woolworths, now you see a lot of old people stealing because they can't afford to buy the food to eat and that's sad."* (Group 11, Adelaide)

However, this generally strong support for pension increases was tempered by a need for examination of circumstances on a case by case basis. An example was cited of one lady's mother receiving aged pension plus a generous war veteran's pension, and in such circumstances an increase in pension was perhaps not warranted.

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#### 4.1.15 Austudy

Current and recent Austudy recipients felt the payment was not enough to pay education expenses as well as living expenses. There was also the comment that after the struggle to survive on Austudy as a student, recipients were then burdened with a HECS debt as well at the end.

Others felt it was unfair that the means testing regime for Austudy included parents' income, particularly where children of relatively modest upbringing (e.g. parents were low to middle income only) earning were ineligible to receive Austudy. Some expressed anger that 'wealthy' families are able to find loopholes to minimise declared income (like paying themselves salaries out of family companies or trusts) in order that their children can receive Austudy. One suggestion put forward was that the first university degree should be provided free, both as an investment in the future workforce of the nation as a way of potentially maximising chances at self-sufficiency. Another suggestion was to incentivise certain degrees where there are clear shortages in the workforce like nursing or doctors, and this would include waiving the HECS debt if individuals qualify and work in the intended industry.

*"I was at uni for three years and would have been better off on the parenting payment than Austudy because Austudy was not enough, leaves you with very little money for text books or even a social life. You're in poverty pretty much for four years you're in uni. You come out the other end with a massive HECS debt after living on two minute noodles for two years."* (Group 8, Lismore)

One group believed Austudy should be based on the individual, not means tested on parents' or partner's income and assets. The current age of independence was also discussed (the age at which eligibility is determined solely on the circumstances of the individual). There was some consensus that this age should be dropped from 25 to 21 years; and this would be particularly beneficial for those parents that are only just above the means test threshold. Another interest argument put forward by some in the groups was to make educational expenses for the first degree tax deductible. Some felt this provide an additional incentive to study and may provide some relief to students who are struggling to get by on very modest incomes or allowances.

#### 4.1.16 Carers and Disability Pensions

There was general empathy with the plight of those on carer and disability pensions, and although not all had direct knowledge of payment amounts there was a sense among many that these payment amounts may be insufficient. One group participant spoke from his personal experience of having been on a disability pension. He expressed that concern that current payment levels do not take into consideration different circumstances, and recounted that he found the payment amount difficult to live off as an individual with no other support.

*"I found it wasn't enough to sustain me so I took some cash in hand jobs to see if I could do something because it wasn't enough to pay bills or rent. It needs to be taken more on a case by case basis because your expenses are [linked to individual circumstances]. I got bumped up for turning 21 but my bills were the same, it wasn't enough."* (Group 3, Melbourne)

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In relation to carer's payments, there was some concern expressed regarding not enough physical support being provided for carers to give them a break, as well as the dollar amount received in benefits being very low.

*"I spent a while working with disability and aged care workers so I got to understand how disability and aged care works.... it is really poor how it all happens. Some people need a lot of assistance for especially children and the government may give them only 10 hours of help per week and that's not enough if you are a parent with three kids and one of them is severely disabled. You need much more help."* (Group 10, Adelaide)

#### **4.1.17 Parenting payments: perceived inequity and being 'forced' to go back to work**

Some participants felt there was a degree of unfairness between the perceived large amount that a single parent receives compared to other pensioners or benefit recipients.

*"I had friends and they were 16 when they had a kid and they earn twice as much as me, they both claim it and they were given everything from friends so they just forked the money out on toys for themselves. It never used to be around and it was a lot harder and people still survived they went out and got night jobs and did what they had to survive and now it's like here's some money sit home and do nothing ."* (Group 3, Melbourne)

Some mothers who were receiving parenting payments did not like the aspect of what they described as being 'forced' to go back to work 15 hours a week (when their child reached a certain age). While they agreed that it is a positive to work, there was a sense that such an obligation goes against the notion of choice. Taking this argument a step further, some participants felt that the perceived drive to get people into the workforce indicates that Government does not value stay at home mums, and that children have potential to become 'latch key' kids. There was concern that such a scenario may lead to undesirable social outcomes (such as children not being adequately supervised).

*"As a parent they are forcing me to go back into the workforce. As soon as your child is 5 or 6. Where is the structure of the family in that?"* (Group 8, Lismore)

Those with direct experience believed the assessment for these payments should not be calculated on gross household income, but rather should be on net income, as that is what is actually available to go towards living costs.

Others receiving parenting related payments (either parenting payment or Family Tax Benefit A or B) spoke about the difficulties and stresses involved in estimating income for forward periods. Many were quite worried about making mistakes and ending up with a debt, especially when working casually (given income can fluctuate significantly from week to week). For some, this then also made it very difficult to prepare the family budget in general.

*"Well my husband and I have actually left it as an annual amount because it was too hard. If he does overtime one week and not the next, we can't calculate that properly. It makes it hard to budget, a big drain on the budget."*  
(Group 8, Lismore)

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#### 4.1.18 Those that miss out on payments by small margins feel most negatively impacted

One issue identified in the groups was the 'grey area' that emerges in situations where transfer payments are made on an 'eligible/not eligible' basis. There was a sense that this kind of payment structure could potentially result in people deliberately forgoing additional income unless that income amount was sufficient to cover the shortfall caused by the loss of benefit entitlement. The 'pain' of being deemed ineligible for payments such as rent assistance was seemingly exacerbated where people missed out by just a few dollars.

*"I have a young daughter who is working and her wage a week is \$543, so it's not a huge wage. She is living in Brisbane and it is expensive, so she went to Centrelink and by \$20 she missed out on getting anything, a Health Care Card or Rent Assistance. I think that's wrong, I think there are people out there who aren't earning what they should because they're frightened of losing their entitlements."* (Group 8, Lismore)

#### 4.1.19 Reduce transfer payments provided to immigrants

While for most receiving transfers, payments were thought to be too low, payment of transfers to immigrants coming into Australia was perceived as being 'too generous' in some situations. This was justified by the belief that immigrants have not contributed anything to Australia, therefore handouts should be minimal, or paid back via a HECS-like system. With regards to the HECS system, it was thought that Australia would be providing skills training to these people and they could afford to pay back what they had received while they were starting out in the country. Additionally, some suggested that immigrants should be required to become an Australian citizen before receiving any benefit payments.

*"It's got nothing to do with racism at all, but in relation to immigrants coming to Australia – they haven't paid any tax, and, I mean, I think it's fine to give them something, you know, help them set up, but I think there comes a time when I believe it's often a bit too generous."* (Group 6, Brisbane)

#### 4.1.20 Baby Bonus lump sum payments seen as unnecessary

The Baby Bonus was perceived by some respondents as getting 'money for nothing' when others struggle to get the benefits they need at times. These participants generally argued that the Baby Bonus can be wasted on luxury goods, and motivates some young women to have children for short term monetary reward when they may not be prepared for the responsibilities of raising children. These participants were not against support for new parents per se, but rather the form in which that support is provided. Suggested alternatives to large cash payments included issuing food vouchers or vouchers for baby items, or the current Baby Bonus funds being contributed to a government initiated paid maternity leave scheme instead.

*"I think the government is wasting money by giving \$5,000 and some people have babies one after the other.....I think \$5,000 is excessive."* (Group 4, Melbourne)

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*"They would be better off having compulsory maternity leave. Trying to push for paid maternity leave has gone on the backburner because they can't pay for it."*  
(Group 9, Perth)

However, some did support the current cash payment arrangements. Those on higher incomes felt this was one of the few benefits they received for paying their taxes (at least prior to the introduction of means testing).

#### 4.1.21 Public versus private health system

Although overall most felt the public health system was working well, those on income support who were reliant on the public health system or those who have had recent experience of public health beyond visiting a GP, believed that not enough tax was being transferred into the health system. There was some resentment from individuals on higher incomes that they have to pay both the Medicare Levy and private health insurance premiums, but both groups agreed but there are still problems (especially in hospitals) with waiting lists and lack of doctors. There were suggestions of needing to put more money into training doctors for the future.

There were also some negative perceptions of the private health system among income support recipients as draining doctors, nurses, dentists out of the public system into the private system, and this two-tier system was perceived as 'elitist' by some. However, one long term unemployed participant had kept up his basic private health insurance for the five years that he had been unemployed as he was older and was experiencing a lot of medical problems, so wanted the security of no waiting lists for surgical procedures if necessary.

*"The government has to really watch out for private health cover because from what I see it is starting to win out over the public health system, .... the coverage is better, it's just a lot better."* (Group 10, Adelaide)

*"I'm getting to the age where I need to use the health system fairly regularly but I have kept my private health up, to the extent where sometimes I only eat once a day because I would rather pay for my private health insurance....."*  
(Group 10, Adelaide)

The very **limited access to public dental care** was a main concern amongst the long term unemployed. They described long waiting lists, the costs as high, and the quality of dental care as poor because of usually only receiving care from trainee dentists.

*"If you don't have private health cover there is no way you can go to a private dental surgery, you have to go to all the student dentists who don't quite know what they are doing yet cause they need someone to practice on and it still costs you an arm and a leg and you have to go on a waiting list, which in some cases is up to a year long. Your teeth are rotting out, your kids teeth are rotting out and you can't afford to do anything about it."* (Group 10, Adelaide)

The proposed introduction of an increase to the Medicare Levy allowing higher income earners to avoid entering into a private health care fund was perceived as unfair. The cut-off of \$150,000 (reported by participants to be introduced in July 2009) was thought by many to be too high; and additionally people on these earnings should be able to afford private health care. The increased cut-off was seen to have a disadvantage for those who still need



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or choose to be in private health care, as they fear the cost of their healthcare will become more expensive.

*"I think it's unfair that they brought in the higher rate for people to not have to pay a private health fund. We work, we've got a small overdraft, plus we pay for our private health fund. You need a job to do that - you can't do it on a pension. They've upped the rate of the contribution – if you're earning \$150 thousand a year, surely you can afford to pay for private health care...I think it's unfair that they lifted that cutoff."* (Group 6, Brisbane)

The Medicare Levy was generally perceived negatively by participants in the Townsville group. Some participants did not understand how this worked, and thought that by paying for private health care and paying the Medicare Levy they were being treated unfairly (with a perception of double taxation). Additionally, these participants commented that even if someone is paying for private health care, for certain medical treatments people are required to go to public hospitals anyway; as such there is really no incentive be a member of a private health fund.

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## 4.2 What components of the tax and transfer system are working well?

### 4.2.1 Strong support for social welfare system overall

The social welfare system – or the transfer side of the existing tax and transfer system - was consistently seen to be one of the key aspects working well and delivering very necessary support and a reasonable standard of living for most, with specific mention of the existence of the public health system and education system cited as indications of this.

The general opinion was that we have a good social welfare system in Australia that provides a safety net for all, if needed. The comparison was often made to the system in the US, and the consensus was Australian society is enriched through key elements such as health care access for all. Most agreed that although the system has its problems, people can readily access support if they need it.

*"We are lucky that we have benefits, like Family Benefits. It's easy to criticise but we have many benefits. If something drastic happens you will be looked after."*  
(Group 9, Perth)

The health system in particular is perceived as one part of the transfer system that everybody who pays taxes can benefit from. It is a primary and tangible example of getting something back for taxes paid. The overall welfare system was also perceived by some as particularly good for mothers and babies, families and young people. The fact that there are unemployment benefits in Australia at all was seen as a positive (and still perceived as very important even though it does get abused by a minority).

*"Social welfare is working reasonably well, we seem to have got it about right, I work with the homeless and it is reassuring that homeless people are there by choice."* (Group 1, Sydney)

*"I lost my job and I was totally desperate, yeah I had a knee reconstruction and so I did go on [welfare]....and they did make it pretty easy for me, it was four months on that."* (Group 3, Melbourne)

*"The Government health care service, bulk billing, is fair that I can go to the doctors and not pay."* (Group 1, Sydney)

*"We have a good lifestyle, although the hospitals aren't as good as they were, everyone can go and get treatment, we have a better system than some."*  
(Group 5, Sydney)

However, there was still the debate within some groups about the performance of the social welfare system overall in the area of health and the quality of hospital care and levels of service e.g. existence of waiting lists for public patients.



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### 4.2.2 Support for HECS

The Higher Education Contribution Scheme (HECS) for students was also classified by some as a very positive part of the transfer system. The fact students do not have to pay for university degrees upfront was seen as very important to ensure equality in education and allow those who would not normally be able to afford to go to university to receive a university education.

*"Yes HECS, my kids wouldn't be at uni without it. The wealthy ones would get to go and the rest of us not." (Group 4, Melbourne)*

### 4.2.3 Medicare and Pharmaceutical Benefits Scheme

Once again, the performance of Medicare was based on a comparison to the US health system. Medicare was described as being available to all and providing security no matter what financial situation you may be in, but everyone still having the choice of private health insurance.

*"It gives you security knowing that no matter what your financial circumstances are if you or your family is sick there is help, you won't get turned away." (Group 11, Perth)*

*"My 19 year old son was in a motor accident last year and had a total face reconstruction. If I'd had to pay for that in America I would have had to sell my house. Who cares if we saw a different doctor each day." (Group 11, Perth)*

Although there had been discussion around the hospital waiting lists and shortage of medical staff in the public system, at a personal level most had positive experiences of the Health System and the benefits of the Health Care Card were also mentioned by those with direct experience.

*"I've had good experiences with the Health System, I had three different midwives for my three kids and all of them were fantastic." (Group 10, Adelaide)*

*"The Health Care Card is a huge help, I love the Health Care Card. It reduces the cost of going to the doctors and crosses over into transport subsidies and other things as well." (Group 10, Adelaide)*

For some taxpayers the Medicare Levy was understood as a part of tax that ensures everyone is entitled to healthcare and that there is a reasonably healthy population. Some said that they did not mind paying this, as everyone gets a direct benefit.

*"Medicare isn't tax, it's like health care." (Group 3, Melbourne)*

The Pharmaceutical Benefits Scheme (PBS) was universally considered a completely invaluable support scheme that ensures everyone can have access to the medicines they need. It was perceived as especially beneficial for aged pensioners, given their limited income, as well as for others on Centrelink benefits.

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#### 4.2.4 GST perceived as working well

There were some varying opinions on the GST, but overall most felt it had worked well, despite the initial dislike and hesitation when it was introduced. It was well liked on the basis that people who make more spend more, and that everyone pays regardless of income level. Generally GST was considered 'the most fair way' of taxing people.

Some small business people felt that the BAS system works well as it keeps a business on track and by the end of the year it is all completed. At a practical level some believed it should never be changed from 10% as would be too difficult to calculate 11% or 12%.

*"GST is the best thing they ever did."* (Group 6, Brisbane)

*"When we had a small business I thought it was great when I actually did it. I was much more organised and it was easier to do. At the end I really liked it because it made me organised."* (Group 8, Lismore)

It was highly valued by some small business people that when BAS payments are due, there is an allowance made for those who cannot pay the full amount; they are able to pay this off in instalments.

*"There's a couple of times when my BAS account has come to more than what I've got in the bank, and I've just paid what I could, and they send you out a statement and then they just send out a payment plan over four months or so, so you can pay it back over four months. I do not want to see that change."*  
(Group 12, Brisbane)

However, it was believed that small businesses in particular require more education about how GST works, and how to manage cash flow (e.g. quarantining the GST) in order to pay this off their tax bill on time without incurring a large debt.

*"I agree with it (GST), but I think that a lot of Australians with small businesses aren't educated enough to realize how it works. You're supposed to save that extra 10%, because you get a GST bill at the end of the year, and a lot of small companies have been hit with unexpected multiple-thousand-dollar tax bills. I guess that's just bad management, but I think there needs to be some education."*  
(Group 6, Brisbane)

#### 4.2.5 The ATO's E-Tax self-lodgement system

E-Tax was a clear favourite among those who were doing their own income tax return and those who were simple PAYE taxpayers, with its ability to achieve speedy returns and remember your details from year to year.

*"Online tax returns! I love online tax returns."* (Group 6, Brisbane)

*"In regards to filling out the E-Tax, it is pretty good because it gives you deductions and bank interest and as you type in it knows what accounts you have and interest you've paid."* (Group 13, Perth)

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*"E-Tax for simple payers, you fill in the form and get a refund into your bank account within 14 days, no fuss." (Group 5, Sydney)*

*"I do my own tax, did it over the net and I found it sensational but then I'm a basic PAYE." (Group 5, Sydney)*

*"I think the E-Tax is pretty good. You don't have to fill in the form all over again, it just rolls over so you can adjust your depreciation." (Group 8, Lismore)*

E-Tax was seen as one of the main positives within the modern income tax system compared to the past. This was naturally a more obvious positive for older age groups who had experienced a system without electronic transfers in years gone by.

*"We can get it (tax return) straight into our account not like the old system where we paid the bank to cash a cheque." (Group 4, Melbourne)*

#### **4.2.6 New education support**

This was mentioned by the Lismore group, where many had children who were school aged. This new education initiative that was reported to allow claims for some education related items through income tax (e.g. Internet) was very well liked and positively received.

*"The new thing that's come in you can claim on the Internet, I'm happy about that. Education support, you can claim things like \$750 for a high school student when you put in your tax form." (Group 8, Lismore)*

#### **4.2.7 Exceptional circumstances grants and benefits for farmers e.g. Health Care Cards**

Primary producers included in the study acknowledged that some small benefits had been put in place to try and alleviate the impact of drought on their businesses and that these things were appreciated, although often only perceived as a token gesture. They do provide a sense of at least getting something back from taxes paid.

*"In terms of farmers getting Health Care Cards but only if you're operating at a loss." (Group 2, Shepparton)*

#### **4.2.8 Information and support from ATO**

Small business operators (including primary producers) noted that there has generally been greater support and assistance provided by the ATO recently than in previous years, and this change in approach was certainly appreciated. Specifically, some small business operators mentioned a CD provided to them from the ATO to assist with preparing their income tax affairs for their accountant. This was perceived as helping to manage the complexities of income tax returns and most importantly keeping accountant's fees to a minimum.

*"I think that the CD package that Government has handed out to be able to do your own is absolutely fantastic. If you don't nail your accountant down to precision then they could charge you a disgusting rate." (Group 2, Shepparton)*

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Tax incentives to start a small business were mentioned by the mothers with dependent children in Adelaide, one who had recently started her own small retail business. She felt the depreciation of set-up costs, training from the ATO, as well as the free accounting or tax packages were very beneficial and well done.

*"They do training really well, you can write off the costs for training, free tax packages to do my accounting and that sort of thing, so that's been good and access to ask questions. That's good....still would like to pay less tax."*

(Group 11, Adelaide)

#### **4.2.9 Superannuation Co-contribution**

This was well liked as a scheme that is about Government helping people to help themselves and plan for their retirement so that there is no need (or at least, less need) to rely on an aged pension.

*"So they are helping you to get super later on.....helping you to help yourself."*

(Group 11, Adelaide)

#### **4.2.10 Monitoring taxes and transfers**

The group in Townsville believed that the current monitoring system in place to ensure people are not cheating the system was a positive element of the tax and transfer system. Participants did not like to think that certain individuals could be getting away with 'cheating the system'. They liked how the tax file number worked, and were supportive of methods used to monitor the payment of taxes and receiving of transfers.

*"I think that they try and weed out anyone that's trying to cheat."*

(Group 7, Townsville)

#### **4.2.11 Imputation credits**

Individual taxpayers in Brisbane believed the return of imputation credits was a positive of the current system, particularly for those receiving a disability support pension. There was concern about imputation credits not being able to be claimed anymore.

*"Returning of imputation credits was a good idea, for people like me on a disability support pension. You get your dividends returned."* (Group 6, Brisbane)

#### **4.2.12 Baby Bonus**

Finally, the division of the baby bonus into fortnightly payments was believed to be much fairer and conducive to this payment being spent in more appropriate ways by this group.

*"They don't get a lump sum for a baby now, which is good."* (Group 6, Brisbane)

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## 4.3 Are there taxes or transfers you see as fair or unfair?

The definitions or principle of **fair** within the context of the tax and transfer system overall tended to be about:

- Benefits from the transfer system that are available for all when genuinely needed or relevant; or
- A sense of getting something back in return (pay taxes and receive benefits), a sense that the system is not too one sided or unbalanced.

For individuals, this sense of fairness can be about seeing the benefits within the community and society generally in the form of, for example, a well functioning health system. For others, this was very much about receiving personal or individual benefits directly e.g. Family Tax Benefits or other direct payments.

Fairness was also typically defined in the same way as a social network where you give, and also receive in return for your favours. An individual puts their share into the tax and transfer system when they are in a position in life to do so, and gets back from the system on an as needed basis throughout life. Ideally, everyone within society is then encouraged to fulfil their potential and make a positive contribution as a whole.

Paid maternity leave was seen by some female participants in the groups in this sense. It was thought to be a benefit that is deserved by women who have worked and paid taxes. Given their input to the system, many feel they then deserve to be able to stay at home with their new child without struggling financially to do so – with a view to returning to the workforce (and contributing more in taxes) as their children grow.

Conversely, what was **unfair** typically related to 'just missing out' on benefits from the tax and transfer system, especially as a taxpayer who is paying taxes and always doing what is perceived as the 'right thing' (i.e. not avoiding tax, paying high taxes and multiple taxes). Or it can be just not being able to easily access transfer benefits at times in life of genuine need or emergency.

Given most participants struggled to differentiate what they perceived to be working well and fair aspects of the system (and conversely what they perceived to be not working well, or unfair aspects of the current system), the previous section of this report can ultimately be also read as an examination of perceived fairness and unfairness in the current system. In summary, those aspects defined as fair or unfair by participants are highlighted below.

### 4.3.1 Aspects of the system which are seen to be fair

- Medicare and access to free health care for everyone.
- Health Care Card and Pharmaceutical Benefits for those who need it most.
- Medicare Levy (for some who perceived it as a very tangible tax, know and can see where money is going).
- Tax for direct benefits of community and to support the transfer system e.g. health, education and education support benefits (Austudy, Youth Allowance, HECS), infrastructure (e.g. expenditure on roads), environment and sustainability.
- GST as a flat rate tax (everyone pays it, no avoidance).

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- Everyone who is earning an income from paid work contributes at some level to taxation, with support of e.g. tax free thresholds and lower tax rates where applicable.
  - Some direct individual benefits from transfer system for paying tax.
  - The need to pay back benefits or taxes if an individual has deliberately 'cheated' the system.
  - Donations to not-for-profit organisations being tax deductible.

#### **4.3.2 Aspects of the system that are perceived to be unfair**

- Paying too much tax, or high income tax with little direct or indirect evidence of benefits.
- Perceived relatively high income tax paid by low & middle income earners, and small business operators.
- 'Middle income squeeze' – paying relatively high tax but always missing out on benefits from system.
- Lack of incentives to earn more or work harder due to tax brackets (i.e. not working overtime or second job to prevent paying tax at a higher rate).
- Lack of incentive for those receiving transfer benefits to work more hours or work at all out of fear of losing benefits and being worse off financially.
- State taxes, taxes on taxes or 'tax grabs' e.g. Land Tax, Stamp Duty, Capital Gains Tax, Fuel Tax, tax on superannuation and savings, road tolls, tax on cigarettes/alcohol. These taxes were perceived as unfair because of being seen as 'pure revenue raising' with no clear outcomes or as stifling economic development and wealth creation.
- Those who are perceived to make receiving unemployment benefits a life choice. Should be 'a fair day's pay for a fair day's work'.
- Transfer payments not enough to reasonably cover living costs (e.g. Aged Pension, Austudy).
- Complexity of transfer system with all its checks and balances that mean some are not able to easily access transfer payments when genuinely needed and are at their most vulnerable.
- Unwittingly owing money when have needed to forecast annual income e.g. Family Tax Benefit.
- Lack of freedom of choice as a single parent around returning to the workforce and desire among some to stay at home with child.
- Corporate executives receiving large bonuses and not being taxed heavily enough.
- Big business and wealthy individuals able to avoid tax via 'loopholes'.

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- Complexity of personal income tax – creating fear of doing the wrong thing and perceived financial disadvantage as a result i.e. complex forms, language, necessity of accountants and loopholes or optimal deductions for those who are able to ‘work’ the system.
  - Transfer payments to immigrants and Indigenous Australians where there is a sense of individuals taking or receiving without having put into the system at some stage.
  - Those who can afford private health not purchasing or using private health putting added burden on public system or driving up cost of private health insurance for everyone.

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## 4.4 What priorities do you see for improving the tax and transfer system?

For both individual taxpayers and small business operators a **fairer and simpler tax system** was the main priority for improving the tax and transfer system. However, the main priority for those on income support or those with families who were working part time tended to be ensuring a **better quality of life and standard of living for families and children** via a fairer transfer system.

The other most common priority for improvement related to a **greater sense of transparency or control** for the community and taxpayer over how tax money is used and spent by government.

### 1. A fairer tax system

At a basic level this was about lower tax for low to middle income earners and higher tax for higher income earners and big business. Typically the discussion came around to the suggestion of a flat tax rate as a reflection of the desire to address the perceived lack of balance currently in the tax and transfer system. A flat tax rate was perceived to have the following benefits:

- More equal sharing of the tax burden;
- Create a greater incentive to work and earn more (remove issue of tax brackets discouraging overtime, people paying high tax on second jobs)
- Greater transparency of how the system works, less complex;
- Opportunity to remove other forms of tax (e.g. State taxes);
- Opportunity to create one centralised Federal tax collection system, that was also seen by some to have the advantage of removing some layers of bureaucracy and rationalise cost of administering taxes. Centralisation was most positively suggested in NSW and Victoria;
- Increased tax revenue, with more people paying a fair share potentially delivering increased transfer benefits for all.

For small business and middle income earners, fairer very much meant more people in their situation entitled to receive benefits from the system, and a simpler tax system so that everyone is paying their fair share in tax, not just the middle income earners.

There were typically two alternative views of simplifying tax amongst these groups:

- i. Increase GST and have GST only, no other taxes, just one tax system full stop.
- ii. Increase GST (suggestions ranged between 12% to 20%) and simplify income tax to even out the burden (but not necessarily a flat tax rate as still need to allow for low income earners) and then have no other taxes, including no State based taxes.

On reflection it was usually deemed very important to ensure some specific allowances were made in a flat rate system for very low income earners.



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## 2. A simpler income tax system

Simplification of the current personal income tax system was thought to be a logical way to achieve a fairer system, and potentially increase tax revenue or available funds by capturing those currently avoiding tax and/or avoiding work. This discussion was most relevant for small business operators, some individual taxpayers, and especially those balancing work income with transfer payments.

Simplification typically was based around the idea of a flat rate system model - something along the lines of the GST in its simplicity. The biggest advantages of simplification were believed to be:

- Less time spent on paperwork;
- Ability to understand how the system works;
- Remove necessity to use an accountant and hence minimise costs; and
- Remove tax loopholes and means of avoiding tax, therefore increasing tax revenue.

Once prompted, most taxpayers believed they would be willing to accept not being able to make deductions, or far fewer deductions for a simpler system, but the implicit condition was that there would still be something in it 'for me' based on a cost/benefit analysis of wins and losses in a new system.

*"Not everyone knows what they can claim back, people would be content if it was simpler, they knew what they could claim even if it was less you could claim and got rid of the hierarchy of accountants. Fairness is not about getting everything you want."* (Group 1, Sydney)

*"I think we pay a lot of tax, I don't know if we should pay that much and it's like maybe they wouldn't have to give us so much tax back if they didn't tax us so much."* (Group 3, Melbourne)

*"Reduce the amount of claims or allowances and reduce the amount of income tax paid in the first place."* (Group 1, Sydney)

## 3. Transparency or sense of control over expenditure of taxes

This was an aspect that most felt could be greatly improved. Most felt that they would not feel quite as resentful about paying tax if they were aware of or knew more about how taxes were being spent.

Groups also discussed having a greater sense of buy in if they were aware of what was required to fund different areas and what is achieved from the different revenue streams. As mentioned previously, the Medicare Levy was a prime example of where individuals felt that this was a worthwhile tax because they knew where it was going and could see direct benefits for themselves when visiting the GP.

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#### **4. Increase payment amount of transfer benefits and improve dental care**

This was one of the main priorities for those currently on income support, had family members receiving income support or who had previously needed to rely on the transfer system.

It was evident to these people that payments like the aged pension, Austudy, disability and carers pensions and sickness benefits needed to be increased to allow people to achieve a reasonable standard of living as compared to current costs of living. It was believed that all of these types of payments at least needed to be in line with the minimum wage.

Improving the availability of dental care via Medicare was also thought to be a major priority, with dental care described as being extremely expensive even under the public system, difficult to access and dental health at an all time low.

#### **5. Balance and simplicity for the transfer system**

It was recognised by some that a main priority for the transfer system should be to ensure that people are incentivised to work. This was thought to be relevant for low income earners who are trying to balance earnings with not losing transfer benefits, and those who were unemployed and needing to get back into the work force without being disadvantaged financially.

It was believed that this could be achieved through higher thresholds before people start to lose benefits and/or lower tax rates for low income earners. Getting people out of the welfare cycle was perceived as a major priority and allowing people to do this by helping themselves and working was thought to be the best way to do this.

There was also acknowledged a potential need to look at the level of checks and balances that make the transfer system complex, but are there to ensure that people do not abuse the system. It was acknowledged by some that this can cause a lot of stress and burden for those genuinely in need trying to navigate the system and use the 'safety net'. However, there were those who believed that these checks and balances needed to be increased to minimise potential abuses of the system.

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## 4.5 Visualising the ideal tax and transfer system

A guided visualisation technique was used during the focus group discussions to enable group participants to move beyond existing rational expectations of the current tax and transfer system and more easily express fundamental needs, emotions and desires for a future tax system and the type of society they wished to live in, in an ideal world.

This technique was particularly relevant and useful for a topic such as tax and transfer, which tended to trigger more rational responses related to day to day personal issues and frustrations with the existing system, and gave participants permission to move beyond these boundaries and constraints in order to ensure we were able to explore the range of individual as well as social values and principles participants that need to underpin any future tax and transfer system.

The groups were asked to close their eyes and the moderator guided the group to another place with the ideal tax and transfer system. The group visualised what this place, people and system were like (and wrote about or produced drawings/diagrams of their visualised ideal), including:

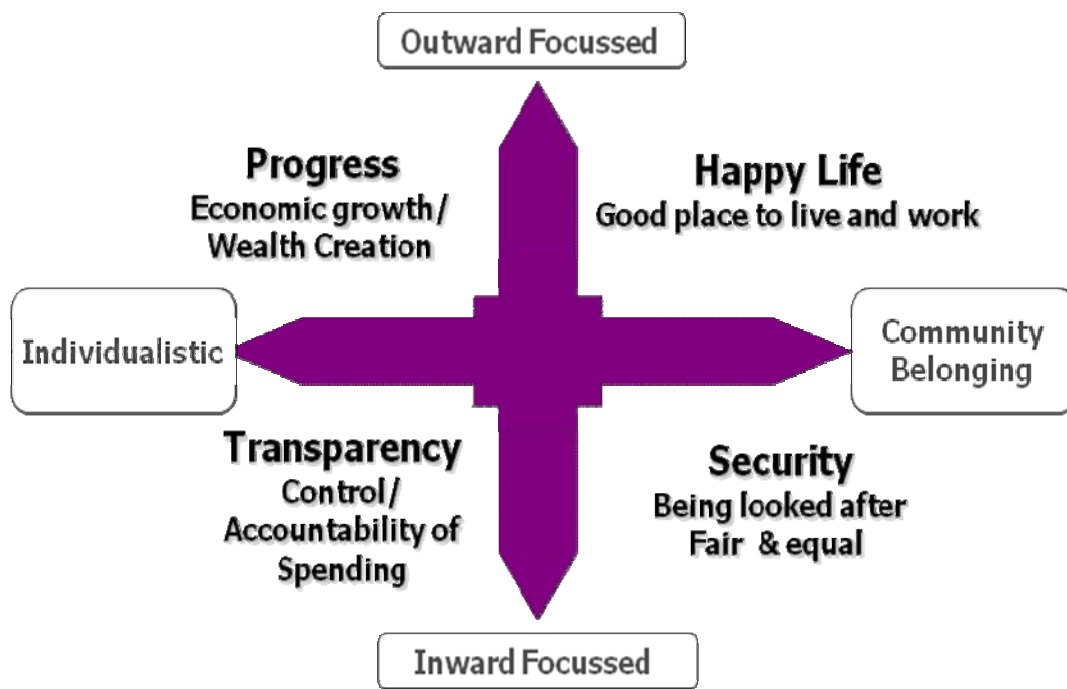
- The people and their values;
- Values and principles underpinning the system;
- Purpose and outcomes from this ideal system.

Based on this exercise and other insights elicited during the discussion, there were some common types of value systems and needs from an ideal tax and transfer system that emerged from group participants.

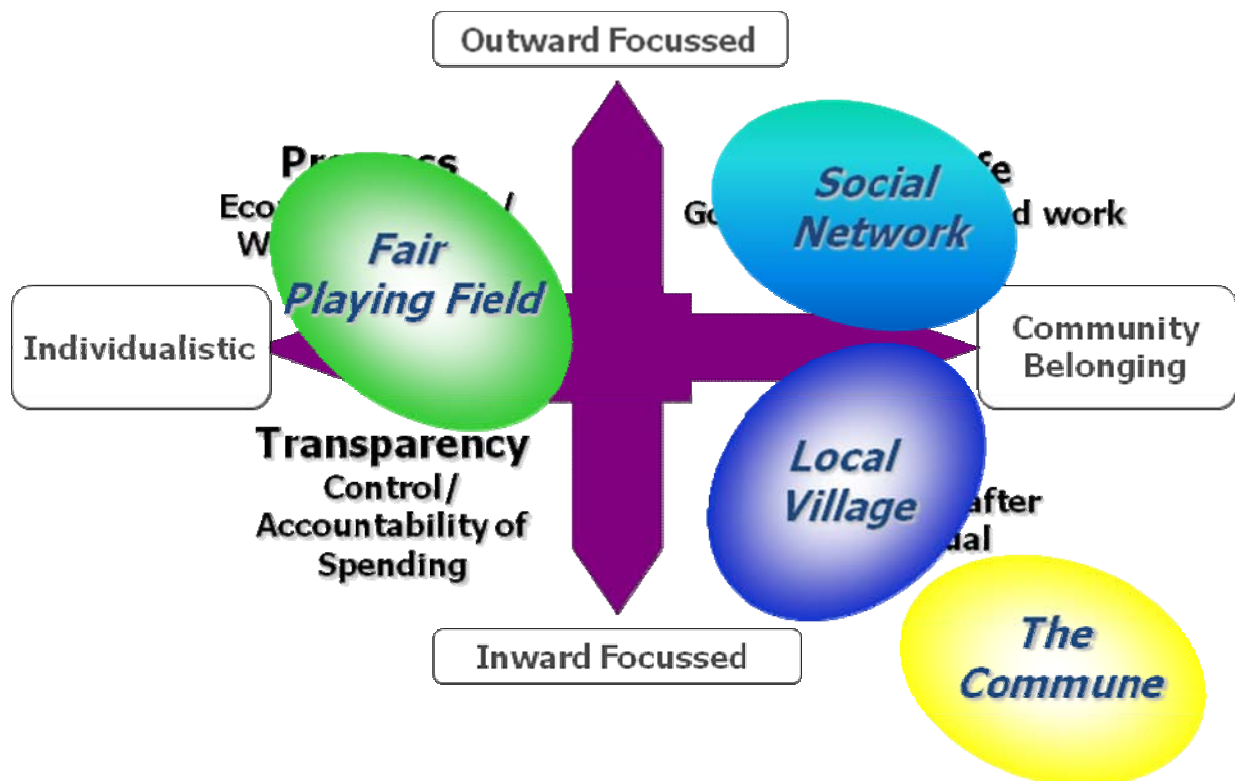
Overall it was very apparent that the tax and transfer system is about the tension of meeting 'my needs' versus the needs of others, as well as how people operate as individuals within society i.e. more individualistic frameworks versus more of a need for community belonging.

There are also key differences in terms of those who are more inward looking and focussed, with more of a protectionist nature or focus on their immediate environment and situation – 'my backyard', versus those who are more outward focused with more of a drive for progress, activity or achievement and are more equipped to look beyond their immediate needs and situation.

At a very basic level these different needs or focuses can be summarised perceptually as follows, and these in turn impacted on the ideal tax and transfer system envisaged:



The different ideal tax and transfer systems that emerged can be typified as follows:



Based on the focus groups, the more dominant values for a future tax and transfer system tended to centre around the 'Local Village' and 'Social Network' principles, which are explained on the following pages. The pure idealism of a 'commune' style society and its pursuit of equality was also expressed.

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## **'The Commune'**

**Core Values:** True equality

**Principles:**

- Everyone contributing equally
- Everyone earning the same
- Everyone working and all jobs of equal status
- No rich or poor, not consumerist

**Outcomes:**

- Free access to all essential services for all citizens e.g. health, education, housing
- Barter system for goods and services (money no of value as support each other)

*Group 11, Females with older dependent children, Adelaide*





## 'Social Network'

### Core Values:

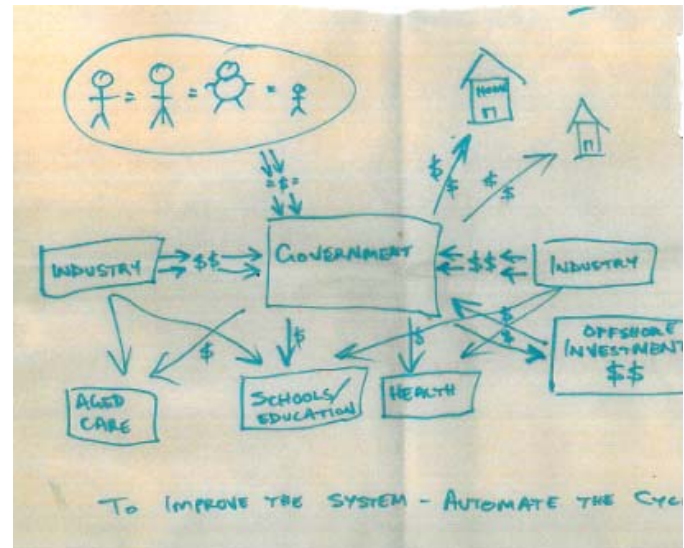
- Balancing obligation to society, believe in a 'good society'
- Government supports citizens mentally and physically
- Accept responsibility for self and more broadly other members of the community

### Principles:

- 'Hard day's work for honest day's pay', happy to work hard so can enjoy life
- Fair - not getting out more than are putting into the system, but everyone gets something in return for paying tax
- Potentially pay higher flat tax to ensure everyone gets benefits
- Provide for those less fortunate

### Outcomes:

- Taxation as a service provider for all, government trusts that people will make best use of system
- Freedom of choice



Group 8, General Taxpayers, Lismore



Group 9, General Taxpayers, Perth



## 'Fair Playing Field'

### Core Values:

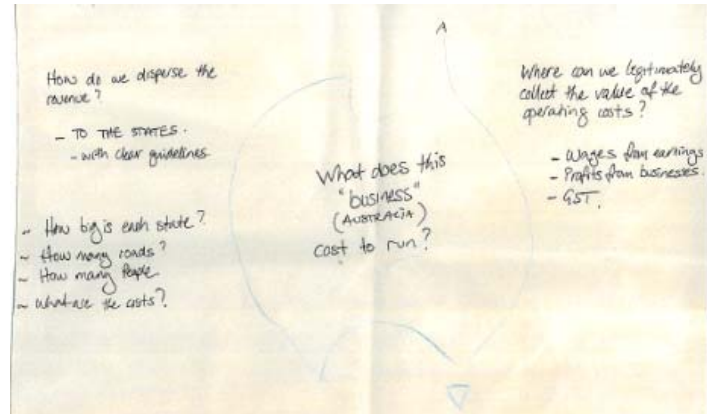
- Progress, economic opportunity, achievement

### Principles:

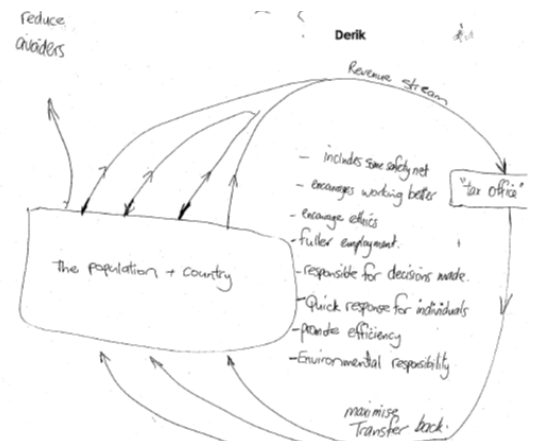
- 'No free lunch'
- Earn as much or as little as you want, it acceptable to have different goals to others
- Not over governed, lower tax for individuals and business
- Government allowing people to reach full potential
- Tax minimisation is OK
- Central collection of tax to minimise bureaucracy
- Transparency, accountability

### Outcomes:

- Wealth creation
- Strong employment
- Confident society



Group 2, Small Business, Shepparton



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## 4.6 Comments on specific tax issues

### Personal Income Tax

Overall opinions were that current tax rates are too high (especially among those in the higher brackets) and that the tax free threshold is too low, with little incentive to earn more among lower to middle income earners. For example, people deciding to turn down overtime to minimise tax and not end up in a higher bracket. This issue of lack of incentive or being penalised to work harder because of the tax brackets was widely expressed. Some with direct experience also felt that the balance between what you can earn before losing benefits from Centrelink was not sending the right signals in terms of encouraging people to work.

There was considerable interest in the concept of a flat rate of tax, with the main attractions being both simplicity and transparency. Typically there was a strong belief that only those on very low incomes should be taxed at a different rate to maintain the integrity of the system.

*“So if you're a man earning a million dollars you'd pay the same proportion of tax on that as the next person. I think that's fair and good on him for making a million dollars.”* (Group 2, Shepparton)

For some individual taxpayers, a solution to increase revenue from personal income tax was to reduce the amount it costs to collect tax rather than increase tax rates. There was concern among some group participants that if personal income tax was to be simplified (e.g. fewer things that can be claimed as deductions) that in some way the average middle income tax payer would still come out worse off financially.

Those on income support believed that the issue was not whether people in different circumstances should be taxed differently, but that the focus should be on supporting people in different circumstances differently, and getting the balance of work, study and benefits in the transfer system working more effectively.

The principle for these income support recipients was that the more you work the more you get back from the system and are rewarded for effort. It was about making sure that those who are not as economically advantaged have equal opportunities to enter the employment market.

### Transfer System

It was reiterated again that on this side of the system, changes also need to be made to encourage work participation, rather than needing to be so concerned about losing benefits, especially when only earning very small amounts of extra income. This was viewed as allowing people to work and earn more before they lose their existing benefits, or giving better support in terms of child care costs.

Those with direct and indirect experience also raised the issue of complexities related to transfer benefits, application forms and the process for applying for benefits in general. Most acknowledged the strengths and weaknesses of this in terms of deterring those who are trying to take advantage of the system versus making it difficult for those who have an honest need. Typically though, people believed there was a need to maintain some level of complexity in the transfer system to ensure 'fairness' and to minimise abuse of the system.

Some small business people and individual taxpayers believed the transfer system needed to be looked at more closely in relation to those abusing unemployment benefits and encouraging this section of the community to get back into the work force using ideas like 'work for the dole' programs and voucher systems (rather than cash payments).

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It was also thought to be important to ensure that the economy does not continue to go down the path of increasing casual and contract work and that the availability of more part time and full time jobs is increased to provide more security for people getting back into the workforce.

It was emphasised by some that the area of disability pensions needed to be looked at and improved. There was the feeling that those permanently disabled and on a disability pension were often struggling to survive on the amount of payment, whilst there are those who are on the pension more short term and need to be encouraged to get back into work.

There was also very brief comment on the need to take into more consideration mental health within the transfer system as potentially one of the biggest health issues of the future.

There were some discussions around the issue of an ageing Australian population and the challenge of sustaining the tax and transfer system into the future. The idea of increasing the age of retirement was raised. This was not well received on the basis of the belief that the individual should still have the choice to retire when they wanted to, and being forced to work for longer before accessing your superannuation was very strongly seen as taking away a freedom of choice.

## **Business Taxes**

Aside from the complexity of income tax in terms of doing a return, the complexity of employing people was thought to be a very big barrier to growth and added stress on a small business in terms of administration time. Payroll tax was also described as having impacted on the growth of some small businesses and decisions to keep businesses as non-employing.

One participant decided that once he started employing apprentices to use a service provider that deals with all compliance issues of wages, superannuation, work cover etc.

*"I'm not going to go that extra mark and employ another person, everything is done under contract."* (Group 1, Sydney)

*"I jumped out of the system two years ago, I went into a straight contract so my apprentice is hired by the master plumbers is just another thing that I don't have to worry about now."* (Group 1, Sydney)

At this point some small business people really wanted to reiterate the cost of the complexity of taxes for business people in terms of time spent on maintaining books and paying accountants to get it right and get best results in terms of claims and returns.

Some acknowledged that the ATO is good at answering questions when they ring to make an enquiry but this is naturally not enough to overcome the bigger problem of complexity overall.

When the Brisbane small business group were asked which tax they would opt to pay (if all taxes were rolled in to one for simplification purposes), there was a mixed response with some choosing GST and others choosing income tax. Another theme coming through with this group was that they wanted to pay a lower amount of tax in general; they didn't mind paying the different types of taxes as long as taxation on them was lowered. Paying one tax did not appeal to some in this group and they could not understand how this would benefit them. It also brought up the issue of being 'slugged' a huge tax bill in any one period. This was not liked.

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These Brisbane small business participants were asked whether they would like to pay GST on a daily basis, rather than quarterly or annually. There was a mixed response with some stating that the current system is fine, while others thought that in the start-up phase of a business it might be helpful to have a pay-as-you-go system in place. There can be difficulties for small business in having lump sums of money available to pay BAS bills, particularly when starting out or when encountering 'emergency' situations. In these cases, pay-as-you-go would be helpful.

With regards to priorities for reform and change in relation to the tax system and its interaction with business operators, the main priorities were simplification of the system and more incentives and support for small business. Simplification was necessary, particularly with regards to the amount of time required to be spent on paperwork. It was felt that this could be better invested in building the business.

Some small business people commented that they could understand why some people set-up family or property trusts to try and minimise tax or to receive benefits they would not otherwise be entitled to given the high rates of income tax and other taxes (and the existing complexities of the tax and transfer system).

## APPENDIX A: FOCUS GROUP RESPONDENT PROFILES

### Group 1: Sydney 8<sup>th</sup> April 2009, 6pm

#### Small Business Operators

No.	Gender	Age	Marital		Employing	Industry
			Status	Household		
1	M	32	N/A	N/A	Yes	Landscaping
2	M	41	N/A	N/A	Yes	Electrician
3	M	55	N/A	N/A	Yes	Plumbing
4	F	58	N/A	N/A	No	Hospitality
5	F	42	N/A	N/A	No	Hairdressing
6	F	50	N/A	N/A	No	Tourism
7	M	59	N/A	N/A	No	Mining
8	M	58	N/A	N/A	No	Corporate Trainer

### Group 2: Shepparton Tuesday 7<sup>th</sup> April 2009, 6.30pm

#### Small Business Operators

No.	Gender	Age	Marital		Employing	Industry
			Status	Household		
1	M	61	N/A	N/A	No	Automotive
2	M	50	N/A	N/A	No	Printing
3	M	41	N/A	N/A	Yes	Hospitality
4	M	39	N/A	N/A	Yes	Farming
5	M	51	N/A	N/A	No	Hospitality
6	M	50-59	N/A	N/A	Yes	Farming
7	M	46	N/A	N/A	Yes	Shop owner
8	M	60-64	N/A	N/A	No	Farming

<b>Group 3: Melbourne 6<sup>th</sup> April 2009, 6pm</b>						
<b>Individuals – Full Time Workers, Under 30, No children</b>						
<b>No.</b>	<b>Gender</b>	<b>Age</b>	<b>Marital Status</b>	<b>Household</b>	<b>Employment Status</b>	<b>Tax Return Lodged 2007/08</b>
1	F	22	Single	Adults only	Full time	Yes
2	F	26	Single	Adults only	Full time	Yes
3	F	26	Single	Adults only	Full time	Yes
4	M	23	Single	Adults only	Full time	
5	M	22	Single	Adults only	Full time	Yes
6	M	29	Single	Adults only	Full time	Yes
7	F	29	Single	Adults only	Full time	Yes

<b>Group 4: Melbourne 6<sup>th</sup> April 2009, 8.15pm</b>						
<b>Individuals – Income Support, Aged Pensioners, Part Time Workers</b>						
<b>No.</b>	<b>Gender</b>	<b>Age</b>	<b>Marital Status</b>	<b>Household</b>	<b>Employment Status</b>	<b>Tax Return Lodged 2007/08</b>
1	F	62	Married	Adults only	Part time	Yes
2	M	58	Married	Adults only	Part time	Yes
3	F	56	Married	Adults only	Disability support	No
4	F	70	Single	Adults only	Retired	Yes
5	F	53	Single	Children 13-18 Yrs	Part time	Yes
6	F	45	Married	Children 13-18 Yrs	Part time	Yes

**Group 5: Sydney Wednesday 8<sup>th</sup> April, 2009 8.15pm**

**Individual tax payers (45-55 yrs)**

No.	Gender	Age	Marital Status	Household	Employment Status	Tax Return Lodged 2007/08
1	F	48	Married	Children 13-18 Yrs	Full time	Yes
2	F	53	Married	Adults only	Full time	Yes
3	F	52	Married	Adults only	Part time	Yes
4	M	46	Separated	Adults only	Full time	Yes
5	M	49	Divorced	Adults only	Unemployed	Yes
6	M	51	Married	Children 5-12 Yrs	Full time	Yes
7	F	45	Divorced	Children 13-18 Yrs	Full time	Yes
8	M	50	Married	Children Under 5 Yrs	Full time	Yes



**Group 6: Brisbane Tuesday 14<sup>th</sup> 2009 4.00pm**  
**Individual tax payers, part time workers, 30+ yrs**

No.	Gender	Age	Marital Status	Household	Employment Status	Tax Return Lodged 2007/08
1	F	60	Married	Adults only	Part time	Yes
2	M	48	De-facto	Adults only	Part time	Yes
3	M	34	Married	Adults only	Part time	Yes
4	F	64	Married	Adults only	Part time	Yes
5	M	27	Single	Adults only	Part time	Yes
6	F	51	De-facto	Children 13-18 Yrs	Part time	Yes
7	F	52	Married	Children 13-18 Yrs	Part time	Yes
8	F	40	Married	Children 5-12 Yrs	Part time	Yes

**Group 7: Townsville Wednesday 15<sup>th</sup> April 2009 6.30pm**

**Individual Taxpayers, Individuals with Families**

No.	Gender	Age	Marital Status	Household	Employment Status	Tax Return Lodged 2007/08
1	M	47	Separated	Children 13-18 Yrs	Full time	Yes
2	M	50	Married	Children Under 5 Yrs	Full time	Yes
3	F	42	Divorced	Children 13-18 Yrs	Full time	Yes
4	F	38	Married	Children 5-12 Yrs	Full time	Yes
5	F	42	Married	Children 13-18 Yrs	Full time	Yes
6	M	40	Married	Children 13-18 Yrs	Full time	Yes
7	F	40	Married	Children 13-18 Yrs	Unemployed	Yes
8	M	42	Married	Children 13-18 Yrs	Full time	Yes

**Group 8: Lismore Tuesday 14<sup>th</sup> April 6.30pm**  
**Individual tax payers (30-45 years)**

No.	Gender	Age	Marital Status	Household	Employment Status	Tax Return Lodged 2007/08
1	F	36	Married	Adults only	Unemployed	Yes
2	F	41	Married	Adults only	Unemployed but looking for part time work	Yes
3	M	38	Married	Adults only	Full time	Yes
4	M	39	Married	Children 5-12 Yrs	Unemployed	Yes
5	F	45	Married	Children 12-18 Yrs	Part time	Yes
6	M	30-34	Married	Children 5-12 Yrs	Full time	Yes
7	F	29	Married	Children Under 5 Yrs	Unemployed	Yes
8	M	35	Married	Children Under 5 Yrs	Full time	Yes
9	F	43	Married	Children 12-18 Yrs	Full time	Yes
10	F	44	Married	Children 12-18 Yrs	Full Time	Yes

**Group 9: Perth, Monday 20<sup>th</sup> April 2009 8.15 pm**  
**Individual taxpayers , (30-45 yrs, must have lodged a tax return)**

No.	Gender	Age	Marital Status	Household	Employment Status	Tax Return Lodged 2007/08
1	M	32	Married	Adults only	Full time	Yes
2	M	47	Single	Children 5-12 Yrs	Full time	Yes
3	F	39	Married	Children 5-12 Yrs	Part time	Yes
4	M	40	Single	Adults only	Full time	Yes
5	F	39	Single	Adults only	Unemployed	Yes
6	M	37	Single	Adults only	Part time	Yes
7	M	32	Single	Adults only	Full time	Yes
8	F	35	Single	Adults only	Full time	Yes
8	F	29	Single	N/A	Student	Yes

**Group 10: Adelaide 15<sup>th</sup> April 2009, 8.15 pm**  
**Individuals – Receive Income Support**

No.	Gender	Age	Marital Status	Household	Employment Status	Tax Return Lodged 2007/08
1	M	32	Single	N/A	Unemployed	No
2	F	44	Divorced	N/A	Part time	Yes
3	F	43	Single	N/A	Unemployed	Yes
4	F	49	Married	N/A	Unemployed	No
5	M	59	Divorced	N/A	Unemployed	Yes
6	F	18	Single	N/A	Student	Yes
7	M	19	Single	N/A	Part time	Yes
8	F	29	Single	N/A	Student	Yes

**Group 11: Adelaide 15<sup>th</sup> April 2009, 6.00pm**  
**Individuals – Females, families with older children**

No.	Gender	Age	Marital Status	Household	Employment Status	Tax Return Lodged 2007/08
1	F	44	Married	Children 13-18 Yrs	Full time	Yes
2	F	47	Married	Children 13-18 Yrs	Full time	Yes
3	F	43	Divorced	Children 13-18 Yrs	Full time	Yes
4	F	49	Married	Children 13-18 Yrs	Part time	Yes
5	F	54	Married	Children 13-18 Yrs	Full time	Yes
6	F	51	Divorced	Children 13-18 Yrs	Part time	Yes

7	F	46	Divorced	Children 13-18 Yrs	Part time	Yes
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**Group 12: Brisbane Tuesday 14<sup>th</sup> April, 2009 6.15 pm**

**Small Business Operators**

No.	Gender	Age	Marital Status	Household	Employing	Industry
1	M	37	N/A	N/A	Yes	Whole seller
2	F	54	N/A	N/A	No	Hospitality
3	M	74	N/A	N/A	Yes	Newsagent
4	F	28	N/A	N/A	No	Movie Production
5	F	43	N/A	N/A	Yes	Face Painting
6	F	33	N/A	N/A	No	Retail

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**Group 13: Perth, Monday 20<sup>th</sup> April 2009 6.00pm**

**Small Business Operators**

<b>No.</b>	<b>Gender</b>	<b>Age</b>	<b>Marital Status</b>	<b>Household</b>	<b>Employing</b>	<b>Industry</b>
1	M	55	N/A	N/A	No	Music Recording
2	F	56	N/A	N/A	No	Professional
3	M	50	N/A	N/A	Yes	Hospitality
4	F	60	N/A	N/A	No	Professional
5	M	50	N/A	N/A	Yes	Manufacturing
6	M	52	N/A	N/A	Yes	Professional
7	M	56	N/A	N/A	Yes	Transport



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