



17 May 2005

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Justice GM Giudice
President
Australian Industrial Relations Commission
80 William Street
EAST SYDNEY NSW 2011

Dear Justice Giudice

Re: SAFETY NET REVIEW CASE – FURTHER SUBMISSION

Ai Group makes this further submission to the Safety Net Review Case in accordance with the amended directions issued on 23 December, following the Commonwealth Budget 2005-06 handed down on 10 May 2005.

Economic Conditions

In Ai Group's Safety Net Review Submission of March 2005 and Reply Submission of April 2005, we emphasised the need for the Commission to take account of economic conditions at the time any wage adjustment was granted. Unlike the ACTU which argued that the economy would continue to grow strongly, Ai Group warned that economic conditions had changed since the start of 2005, with the economy showing signs of slowing.

The release of the Federal Budget and subsequent Statement on Monetary Policy confirms the Ai Group proposition challenged by the ACTU, namely that the economy is slowing yet still subject to increased inflationary pressures. The Federal Budget has lowered its growth forecast for 2004/5 to an average of 2 per cent, down from an average of 4.1 per cent in 2003/4. Even with a recovery in 2005/6, growth of 3 per cent remains below that achieved in past years.

The RBA Statement acknowledged that demand conditions had eased but "that inflation was likely to increase gradually from its current level" (p.4) despite some easing in upside risks.

The Needs of the Low Paid and Changes to the Social Safety Net

In our March and April 2005 submissions, we urged the Commission to give effect to its recognition in the past few Safety Net Review Decisions that minimum wage rates are part of the broader social safety net, and to substantially discount the safety net adjustment that it would otherwise have awarded this year, to take account of massive increases in tax transfer payments over the past year.

Our submissions set out in detail the major changes to income taxation and income support arrangements, relevant to the needs of the low paid, made between 1 March 2004 and 28 February 2005.

Several further changes to income taxation and income support arrangements have been made in the 2005-06 Budget, which will increase the disposable incomes of the low paid over the period ahead. The major changes impacting on the low paid are listed below.

1. An increase in the threshold at which Family Tax Benefit A begins to phase out. The threshold will rise to \$37,500 from 1 July 2006.
 - The threshold is currently \$32,485 and will increase to \$33,485 from 1 July 2005. The Government estimates that around 400,000 families will be favourably impacted.
 - From 1 July 2006 most of the 400,000 families impacted will experience an increase in disposable income of slightly more than \$800 per year or by about \$15.40 per week (relative to the amount they will receive from 1 July 2005).
 - Families with incomes between \$33,485 and \$37,500 will experience a reduction in effective marginal tax rates of 20 cents in the dollar from 1 July 2006.
2. A reduction, from 17% to 15%, in the rate of tax applying to income between \$6,000 and \$21,600 will become effective from 1 July 2005.
 - This will lower the effective marginal tax rates applying to people with taxable incomes between \$6,000 and \$21,600 (other than those excluded from income tax by the low income tax offset) by two percentage points.
 - This measure will also improve the after-tax income of all taxpayers with income above \$21,600 by \$312 or around \$6 per week.
3. From 1 July 2006, the income test for Newstart Allowance and other similar allowances will be relaxed from 70 cents in the dollar to 50 cents in the dollar for private income of between \$62 and \$250 per fortnight and to 60 cents in the dollar for income above \$250 per fortnight.
 - This will reduce effective marginal tax rates and increase disposable incomes for many casual and part-time workers.

4. Increases in the thresholds at which the Medicare Levy begins to apply.
- The Budget announced an increase in the Medicare Levy thresholds applying to 2004-05 income tax liabilities to \$15,902 (currently \$15,529) for single people; to \$26,834 for families (currently \$26,205) with an additional \$2,464 (currently \$2,406) to the threshold for each dependant student or child.

Yours sincerely

A handwritten signature in black ink, appearing to read "S. Smith". The signature is fluid and cursive, with a large initial "S" and a long, sweeping tail.

Stephen Smith
DIRECTOR - NATIONAL INDUSTRIAL RELATIONS