Response to the Higher Education Review

HOW TO MAKE HECS/INDIVIDUAL CO-PAYMENTS FAIR (IN THE ABSENCE OF FREE EDUCATION)

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HECS IS UNFAIR; LET'S CHANGE IT AND HAVE AN EDUCATION REVOLUTION!

The current Government is committed to a co-payment scheme for Tertiary Studies by individuals. While we strongly disagree that this should be the case and believe in a free education system, we will put forward an alternatives to the current arrangements that will be fair, will be based on our current generally accepted taxation principles, and ensure continuation of funding for a system in which education will be widely available to all and not provide disincentives to a few.

What is wrong with HECS?

The current HECS regime provides disincentives to undertake low paid although valuable employment. This includes areas such as Nursing, Education and Humanities. The contribution that is received currently from the individual co-payment systems like HECS charges students despite their potential or actual earnings in the future.

HECS, or individual co-payment schemes, also fail to recognise that people in the same industry may also earn different levels of income. This results in a further disparity in the real value that Higher Education has provided to the individual. The following systems provide alternatives to the current system that should redress these inadequacies.

<u>System 1 - Progressive Taxation</u>

This system would not increase or decrease the actual overall cost or contribution of Higher Education, but redistribute where that taxation falls. This would ensure that fees fall fairly on all individuals, including who have not benefited as much as others from the Higher Education that they have received.

The new system of individual payments would be a broad addition to the existing taxation arrangements. This can be implemented in two different ways. The first is to have a progressive tax system based on the current tax system, including an increased level of taxation on the basis of increased income.

For example:

Taxable income	Tax on this income	Education co-payment
$0 – $6,000	Nil	Nil
$6,001 – $34,000	15c for each $1 over $6,000	0.10c[1] for each $1
$34,001 – $80,000	$4,200 plus 30c for each $1 over $34,000	+0.12c for each $1
$80,001 – $180,000	$18,000 plus 40c for each $1 over $80,000	+0.15c for each $1
Over $180,000	$58,000 plus 45c for each $1 over $180,000	+0.20c for each $1

[1] These figures are suggested for the purpose of example only; the actual amounts would need to be worked out by Treasury.

This would see payments by former students increasing on a scale proportionate to their income. This would mean that it is possible to pay an unlimited amount on your education over your taxable lifetime, achieved by adding the proposed small tax amount to your regular income tax. Conversely, people who earn comparatively little over their lifetime, and have thus received little financial benefit from the Higher Education they have participated in, will pay little (or less than their current contribution) in their taxable lifetime.

System 2 – Medicare Style Higher Education Levy

An alternative option is to introduce something similar to a Medicare Levy. This would see a percentage of tax added to individuals' tax based on their participation in Higher Education.

Either of these systems would mean that there is a progressive basis for co-payments. An individual system could have a number of features, including a specific time period for which the tax or levy applies to an individual, or a cap on co-contributions (either yearly or over a lifetime) to ensure that individuals do not pay an excessive amount for Higher Education fees.

Both of these systems would provide a means for students to undertake degrees that they may not have considered previously, based on lower expected returns from future employment achieved through these degrees. They also align strongly with current incentives put in place by the previous Federal Government in regards to a decrease in HECS, including the National Priority areas of Nursing and Education.

Such systems may also see a decrease in costs of administration as applied to the general taxation system and no separate HECS system would need to be implemented. Further within this regime, HECS or similar statements would not need to be prepared, as the lifetime of payments would be undefined unless an upper limit was set.

In the absence of a free education system, an alternative model to the current HECS is necessary to equalise HECS-related taxation, and create a fair system in which all recipients of Higher Education pay a tax that is reflective of their resulting income. Either of the two methods described would not only make individual payments more just, but would highlight Higher Education as an institution for learning, rather than the focus remaining on a gain of high financial rewards as a result of tertiary study.