# The Government's superannuation reforms: what needs to change to ensure super works for all, not just the well-off

## Summary


- The vision of a super system that works for all and reduces reliance on Age Pensions is a long way from being realised. The superannuation system mainly benefits people who are already in a privileged position:
    - Half the annual cost of superannuation tax breaks goes to the top 20% of wage earners. This is unfair and also wasteful because many will never rely on Age Pensions.
    - Less than 10% of the tax breaks go to the lowest 40%.
    - Part time workers below the tax threshold (around $20,000), most of whom are women, receive no tax break for super contributions made by their employer.
    - Yet they have more need for support to achieve a decent retirement living standard and are much more likely to rely on the Pension.

- The solution is to shift super tax breaks from high income earners towards people on lower incomes. The system should be redesigned to ensure that:
    (a) a dollar saved attracts the same level of tax support regardless of people's incomes and how they are earned, so that the system works for everyone; and
    (b) tax breaks are capped at a level where people can achieve a decent retirement living standard, because super is for retirement rather than wealth accumulation by those who are already well off.

- The Government should hold the line on its proposals to cap superannuation tax breaks for people with high incomes or wealth, which we strongly support:
    - Proposed exemptions for people making windfall gains (e.g. lottery winners) would be complex and unfair. A dollar saved should have the same value wherever it comes from.

- The Government should do more to make super worthwhile for people on low incomes by doubling its proposed Low Income Superannuation Tax Offset (LISTO):
    - This would give people earning under $20,000 a similar tax break per dollar contributed to a middle income-earner on $70,000.
- This should be paid for by not proceeding with $1.5 billion of three new tax breaks in the Government's package that mainly benefit high income-earners


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and have received little public acknowledgement or support:
- a new tax deduction for employee contributions, which would mainly benefit people on the top tax rate;
- extension of tax breaks for 'catch up contributions', which would mainly benefit men with high incomes rather than women with low incomes, since few people can afford to contribute over the proposed annual 'cap' of $25,000; and
- an increase in the rebate for 'spouse contributions', which again mainly benefits men on high incomes, who can afford to contribute for their partner.

+ In this way the Government could still save a net $3 billion over the next four years and the $3 billion they propose to spend on new tax breaks would go where it's needed. It would help make super worthwhile for people on low incomes.

## 1. The Government should hold the line on its proposed caps on super tax breaks for high income earners:

ACOSS strongly supports the government's budget proposals to cap superannuation tax concessions for those who least need them. We continue to support this approach. It is not acceptable in the present Budget environment for individuals with large superannuation contributions or assets – who are unlikely to rely on the Age Pension in any event - to pay tax on their superannuation income of 0% or 15% when an average fulltime worker pays 35 cents in the dollar in tax and Newstart Allowance is only $38 a day.

The measures in the Government's superannuation package we strongly support include:

+ The $25,000 concessional contributions cap (down from $30-35,000):
    - Only 3% of super fund members can afford to contribute more than this[1].

+ The 15% increase in the 15% contributions tax for individuals earning over $250,000
    - Otherwise the flat 15% tax rate means they save 34 cents per dollar contributed compared with 20 cents for a middle income earner on $70,000;
    - Only 1% of super fund members would be affected.

+ The $1.6 million limit on superannuation assets attracting a zero tax rate on fund earnings in the 'pension phase'

[1] Budget Papers (2016), 'Superannuation fact sheet (2)'.

- Only the top 1% of fund members have this much in super, and the earnings of their fund (from investments) would still only be taxed at 15%.

+ The lifetime cap of $500,000 for non-concessional contributions
    - Only the top 1% have contributed more than this,
    - While we would have preferred a substantial lowering of existing annual cap of $180,000 we don't believe this measure is 'retrospective' as it only applies to future contributions.

+ The proposed 15% tax on fund earnings in 'Transition to Retirement' accounts:
    - This means that earnings from funds in those accounts are taxed at the same rate as other super funds where benefits are being accumulated; and
    - It helps overcome widespread tax avoidance through the 'churning' of wages through super accounts, without actually saving more for retirement.

Together these changes would substantially reduce the cost to the Budget of tax concessions for people who – while they are not all wealthy – do not need the tax breaks they now receive to achieve a decent living standard in retirement. These and other savings proposals would raise an extra $6 Billion in public revenue over four years, helping restore the Budget in an equitable way.

Despite the strenuous opposition of a small minority, these are modest reforms. They would leave ample opportunities for people to save enough to achieve a decent living standard in retirement, and superannuation fund earnings would still be taxed - at most- at the low rate of 15%.

However, they do not improve superannuation for people with low incomes, the group the present system discriminates against.

## 2. The proposed Low Income Superannuation Tax Offset (LISTO) should be doubled for people below the tax free threshold.

People on low wages, most of whom are women employed part-time, receive little or no tax support for super contributions made by their employers. An individual earning less than $20,000 receives no tax break on contributions, while a person on $200,000 saves 34 cents in tax for every dollar contributed. The reason for this is that super contributions are taxed at a flat rate of 15%. This means that people below the tax free threshold are penalized for their super contributions, paying more tax on super than they do on their wages.

By replacing the Low Income Superannuation Contribution (LISC) that is being abolished by the Government this year, the new Low Income Superannuation Tax Offset (LISTO) would effectively maintain the present tax treatment of employer contributions for individuals earning less than $37,000 a year:

+ It would prevent people below the tax free threshold (approximately $20,000) from being financially penalised for saving through superannuation, as was the case before the LISC was introduced. The 15% LISTO would exactly offset the 15% tax imposed on employer superannuation contributions, so their 'net' tax break would be zero.
+ It would also maintain the present 'net' tax break per dollar contributed of 21 cents ((15% + (21% - 15%)) for people on the 19% tax rate (earning $20-$37,000)[2].

The LISTO is estimated to cost $1,300 million over the next four years ($700m in 2019)[3].

Even if the LISTO is introduced as proposed, the graph below shows that this would still leave low income-earners below $20,000 with no tax incentive for their super contributions – unlike virtually all other wage earners. This is a serious flaw in the superannuation system. In many cases, once fees and taxes are taken into account super is not financially worthwhile for people with low incomes.

We propose that the LISTO be doubled from 15% to 30% for individuals earning less than the tax free threshold, and the $500 'cap' for the LISTO be increased. The LISTO would remain at 15% for those earning between $20,000-$37,000. This would give both groups approximately the same tax break per dollar contributed to super (at least for compulsory 'super guarantee' contributions) as a middle income-earner in the 32.5% tax bracket ($37,000-$80,000), as shown in the graph below.

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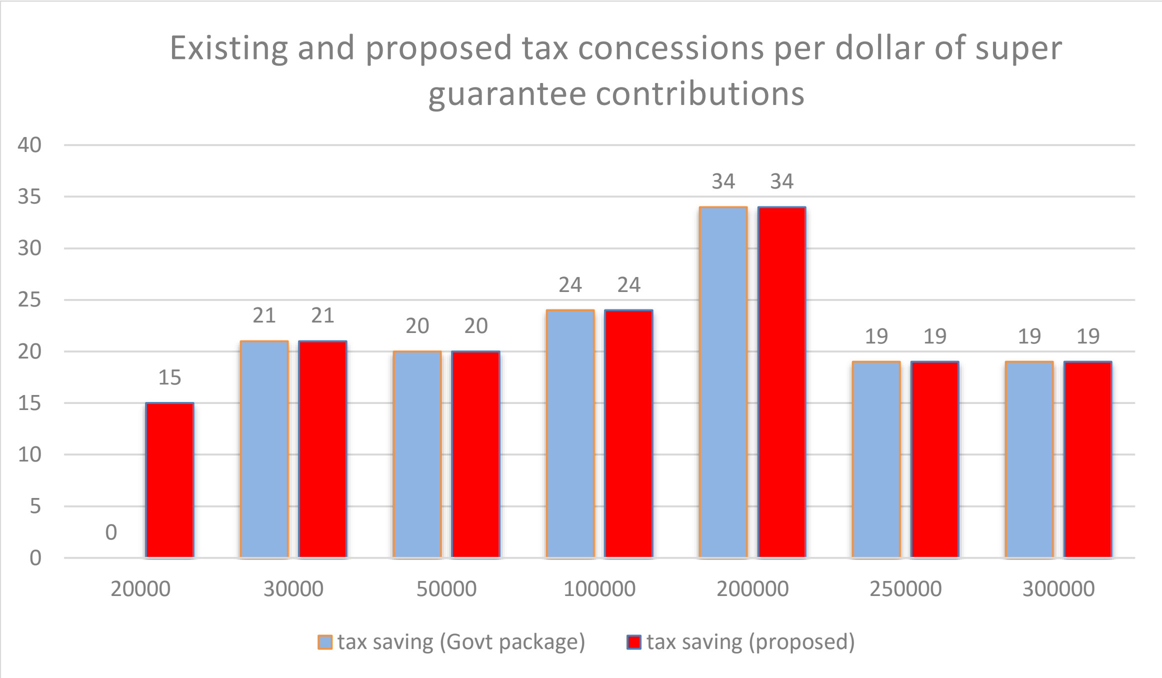
[2] This takes account of the 2% Medicare Levy.

[3] Budget Papers (2016), 'Budget Paper No2.'




We also propose that the maximum rate of the LISTO be lifted (slightly above twice the current cap of $500) so that all compulsory 'superannuation guarantee' contributions for individuals earning below $37,000 attract the LISTO, which was the original policy intent of the LISC.

This proposal will particularly benefit low income women, especially young women. Industry Superannuation Australia estimates that around 3.4 million people earning below $37,000, 60% of whom (2 million) are women, received the LISC; and a similar number are likely to receive the LISTO[4]. Around 40% of LISC recipients were under 30 years of age, so, unlike many other retirement income tax concessions, this particularly benefits young people saving long-term for retirement, as any gains for this group are compounded over 30 to 40 years.

Those who particularly benefit from this proposal are the estimated 1,100,000 people earning less than $20,000, of whom 60% are women (mainly part time employees).

We are not in a position to cost this measure, but this *increase* in the LISTO is likely to cost less than the $1,300 million price tag of the Government's proposal[5].

If low income earners received a tax break of close to 20 cents per dollar contributed to superannuation by their employer instead of zero (as would be the case for people below the tax free threshold if the LISTO is introduced as proposed) that would be a major advance for people on low incomes. Superannuation would become a

[4] Industry Superannuation Australia (2016), 'Missing the mark.'
[5] Less than half of LISC recipients had income below the tax free threshold.

worthwhile investment for many more people, Age Pension costs would be reduced in a more cost-effective way, and more people could avoid poverty in old age.

## 3. This should be paid for by not proceeding with other poorly targeted measures in the Government's package.

The doubling of the LISTO could be paid for by not proceeding with three measures in the Government's package which have attracted little public attention and support and would mainly benefit high income-earners:

1. the proposed deduction for contributions,
2. the 'catch up' contributions measure, and
3. the 'spouse contributions' measure.

Unlike the LISTO, these changes would mainly benefit people with high incomes - for the most part men on the top marginal income tax rate. Together they would cost $1,400 million over the next four years. Since this is more than the LISTO and almost certainly more than our proposed increase to it, our proposal would reduce the Budget deficit in the short term. More importantly, by increasing annual contributions for low income earners it would have a greater impact on future Age Pension costs than the three measures listed above.

### 'Catch up contributions'

The 'catch up contributions' proposal would allow people to pool the proposed $25,000 annual contributions cap for contributions for up to five years (for example, to contribute $125,000 in a single year without losing any tax breaks, if no contributions were made for the last four years). This is estimated to cost $350 million over four years ($250m in 2019).

This proposal undermines the goal of the lower $25,000 contributions cap, which is to limit tax breaks for people who do not need assistance to save for retirement. The stated intention is to help women save for retirement later in life.

This is a myth. The Grattan Institute estimates that only 51,000 women earning less than $79,000 a year make pre-tax contributions of more than $25,000, compared to 153,000 men earning more than $79,000 a year [6]. So most of the benefits of tax breaks for 'catch up' contributions are likely to go to men on above-average incomes, even though this measure is limited to individuals with $500,000 in superannuation.

[6] Grattan Institute (2015), 'Super tax targeting'.

## Deduction for contributions

The proposed deduction for contributions would in effect extend the benefits of 'salary sacrifice' arrangements to a wider range of employees. Currently, only people who are mainly self employed can claim deductions for personal contributions. The proposed deduction would cost $1,000 million ($750m in 2019).

Along with 'salary sacrifice', deductions disproportionately benefit people on the highest tax rates because each dollar deducted would otherwise be taxed at 49%. This proposal would reduce rather than improve the equity and cost-efficiency of superannuation. For example, analysis by the Grattan Institute indicates that the existing deduction for self-employed people mainly benefits people earning over $80,000[7].

## Spouse contributions rebate

The spouse contributions rebate of up to $540 per year would be extended to those whose partners earn less than $37,000 instead of $10,800. This little-used rebate is an outdated way to support retirement savings for women, relying on their partners to contribute on their behalf. It is likely that most contributions under this scheme are made by men on high incomes.

The proposed extension of the rebate would cost $10 million ($5m in 2019).

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[7] Grattan Institute (2015), op cit.