



AIST submission

**Response to: Low Income Earners Government
Superannuation Contribution Consultation
paper**

July 2011



Australian Institute of Superannuation Trustees

Background

As a result of the flat taxation of concessional contributions, around 3.5 million Australians get little or no income tax concession on their superannuation guarantee contributions or, worse still, have these contributions taxed more heavily than their normal income.

On 2 May 2010, the Government announced as part of the *Stronger, Fairer, Simpler: A tax plan for our future*, the introduction of the Low Income Earners Government Superannuation Contribution. This measure will improve the equity of superannuation taxation arrangements by effectively returning the tax payable on superannuation guarantee contributions or the equivalent of other deductible contributions made by or for low income individuals.

Under this announced measure, the Government will provide a superannuation payment of up to \$500 annually for eligible low income earners. The amount will be paid into a superannuation account of an individual to directly boost their retirement savings.

AIST

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's \$450 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

AIST is a registered training organisation and has recently expanded its education program to encompass the growing and changing needs of all members of the not-for-profit superannuation sector.

AIST offers a range of services including compliance and consulting services, events - both national and international - as well as member support. AIST also advocates on behalf of its members to relevant stakeholders.

AIST has recently undergone a vast overhaul, elevating its status as a professional institute to further benefit our members. AIST has introduced a new department – Trustee Governance and Professional Standards – responsible for implementing industry policies and developing a comprehensive framework for the not-for-profit sector.

AIST's services are designed to support members in their endeavour to improve the superannuation system and build a better retirement for all Australians.

Contact

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Executive Summary

AIST strongly supports the policy intent of the Low Income Earners Government Superannuation contribution and feels it is now even more relevant with the recent government proposal of tripling the tax free threshold. However, we strongly believe that the payment should be directly linked to the respective rates used in the calculation of the \$500 maximum amount payable.

We have proposed a formulaic solution so the amount payable does not lose relevance or re-introduces tax inequity if these rates change in the future.

Essentially, in this submission, we are arguing that:

- We support the \$500 contribution within its intended context of making super more tax effective for Australians on lower incomes;
- The payment must be linked to the following variables:
 1. Upper income threshold of the income bracket subject to the lowest marginal tax rate;
 2. Concessional superannuation contribution tax rate; and
 3. Superannuation guarantee rate;
- Linkage to the variables listed above will remove the effect of bracket creep and also, any need for indexation;
- We support the following measures discussed in the paper:
 1. The age and eligibility requirements;
 2. The requirement for a tax return to be submitted;
 3. The relevant superannuation contributions included; and
 4. Inclusion of amounts paid within the contributions segment of the tax-free component;
- We do not support the use of adjusted taxable income and recommend the use of taxable income due to the links between taxable income, marginal rates of taxation and the Superannuation Guarantee; and
- We wish to point out that excluding this from social security means testing for those over age pension age is difficult and will need to be explicitly carved out.

Otherwise, AIST is in agreement with the remaining aspects of the measure and suggests that direct communication of any contribution reassessment be forthcoming from the ATO to the individual concerned.

Position

AIST agrees that the proposed measure to remove the inequity on superannuation guarantee contributions for low income individuals is an excellent step towards increasing the retirement benefit for these individuals and reinforcing to the community that superannuation is a tax effective form of savings.

We note that this consultation paper has already been affected by exogenous events. The government's recently announced Clean Energy Future featured a tripling (approximately) of the tax free threshold to \$18,200 in 2012. As a result of this, more Australians will have a marginal rate of tax of less than the present 15% tax rate on concessional contributions. As this potential gap will be greater and more inequitable, the attractiveness of superannuation as a concessional tax environment will be reduced.

AIST is concerned that the payment may be de-coupled from any future changes in either the lowest marginal tax rate (presently 15%) or the superannuation guarantee (currently 9%, but progressively increasing to 12% by 2019). The net result is that pockets of taxation inequity within the system will form as a result of bracket creep. To ensure that this de-coupling does not occur, we propose that the amount payable be set by a formula that is linked to the following rates: Marginal tax rate and the upper income threshold of the income bracket subject to the lowest marginal tax rate; concessional superannuation contribution tax rate; and superannuation guarantee rate as follows, where one's marginal tax rate is on the lowest level (currently 15%):

$$A = (B \times C) \times D$$

Where:

- | | | |
|---|---|-------------------------------------------------------------------------------|
| A | = | Maximum low income earners' contribution amount payable (\$) |
| B | = | Upper threshold of taxable income assessable at lowest marginal tax rate (\$) |
| C | = | Superannuation guarantee rate |
| D | = | Concessional superannuation contribution tax rate |

AIST believes that such a linkage will remove any perceived need for indexation and ensure that bracket creep does not impact this payment.

The following tables give an indication of the affect of movements in rates and amounts.

Current proposal

Upper threshold of taxable income in 15% MTR	\$37,000
SG rate	9%
Superannuation contributions tax rate	15%
Maximum amount payable	\$500

Adjusted Taxable Income [\$]	Concessional Superannuation Tax Amount [\$]	Low Income Earners Government Superannuation Contribution
\$5,000	\$68	\$68
\$10,000	\$135	\$135
\$15,000	\$203	\$203
\$20,000	\$270	\$270
\$25,000	\$338	\$338
\$30,000	\$405	\$405
\$35,000	\$473	\$473
\$37,000	\$500	\$500
\$40,000	\$540	\$500
\$45,000	\$608	\$500
\$50,000	\$675	\$500

Change in Superannuation Guarantee Rate to 12%

Upper threshold of taxable income in 15% MTR	\$37,000
SG rate	12%
Superannuation contributions tax rate	15%
Maximum amount payable	\$666

Adjusted Taxable Income [\$]	Concessional Superannuation Tax Amount [\$]	Low Income Earners Government Superannuation Contribution
\$5,000	\$90	\$90
\$10,000	\$180	\$180
\$15,000	\$270	\$270
\$20,000	\$360	\$360
\$25,000	\$450	\$450
\$30,000	\$540	\$540
\$35,000	\$630	\$630
\$37,000	\$666	\$666
\$40,000	\$720	\$666
\$45,000	\$810	\$666
\$50,000	\$900	\$666

Change in the Highest Taxable Income in 15% MTR to \$40,000

Upper threshold of taxable income in 15% MTR \$40,000

SG rate	9%
Superannuation contributions tax rate	15%
Maximum amount payable	\$540

Adjusted Taxable Income [\$]	Concessional Superannuation Tax Amount [\$]	Low Income Earners Government Superannuation Contribution
\$5,000	\$68	\$68
\$10,000	\$135	\$135
\$15,000	\$203	\$203
\$20,000	\$270	\$270
\$25,000	\$338	\$338
\$30,000	\$405	\$405
\$35,000	\$473	\$473
\$37,000	\$500	\$500
\$40,000	\$540	\$540
\$45,000	\$608	\$540
\$50,000	\$675	\$540

Policy Parameters

Eligibility

AIST supports both the age and residency eligibility tests.

Lodgment of Income Tax Return

AIST supports the fact that the payment will be automated in so much as the individual will not have to apply for the payment. This is the same process as the current government co-contribution scheme.

It is acknowledged that the most effective mechanism to determine eligibility is the lodgment of an Income Tax return, however it should be noted that for low payment amounts, the cost of filing the tax return may outweigh the actual payment. We estimate that the number of individuals having to lodge an income tax return is very small where they would be otherwise not be required to.

We note that under the government's Clean Energy Future plan, the tax free threshold will increase to \$18,200. We believe that this will increase the number of people who would normally not need to submit tax returns, however we agree that use of a tax return is an important checking tool and necessary to the process. It is important that affected Australians are made aware of this obligation, as they may otherwise be deprived of their entitlement.

Adjusted taxable income

We do not support the use of a person's adjusted taxable income to calculate eligibility for the contribution. Adjusted taxable income includes items such as salary sacrificed superannuation contributions and fringe benefits, both of which do not presently count towards SG amounts.

To put this in an example:

- Billy is a glazier who is paid an income of \$36,000 each year. His employer calculates an SG amount based upon his taxable income and pays it towards his super fund. No additional contributions are made either by Billy after tax, or via a salary sacrifice arrangement. Billy receives adjusted fringe benefits assessed at \$2,000 that relate to the use of a car. Billy receives no additional income or claims any deductions.
- Billy's marginal rate of tax, based upon his taxable income of \$36,000 is 15%, not including Medicare, however the contributions tax rate is also 15%. Billy's SG amount is also based upon his taxable income in this instance, and the tax payable on this amount is based upon that figure.
- However, Billy would be ineligible for this return of tax, based upon the use of his adjusted taxable income figure of \$38,000.

Paragraph 3 of the consultation paper makes it clear that this measure is designed to *“improve the equity of superannuation taxation arrangements by effectively returning the tax payable on superannuation guarantee contributions... made by or for low-income individuals.”* This is in response to the situation outlined in paragraph 2, where it is identified that *“around 3.5 million Australians get little or no income tax concession on their superannuation guarantee contributions or, worse still, have these contributions taxed more heavily than their normal income.”*

To ensure consistency in this instance, taxable income should be used as it is the most equitable and consistent measure and it links to a number of other government payments.

We also agree that a taper is unnecessary; however, this cut-off amount should be directly linked to the upper income threshold within the 15% marginal tax rate.

Relevant concessional superannuation contributions

AIST agrees that the list of contribution types that will (or will not) be included as concessional superannuation contributions for the purposes of assessment of the amount payable are appropriate. In particular, we support the exclusion of accounts with no Tax File Number (TFN).

Amount Payable

As mentioned previously, although AIST is supportive of the measure, we strongly recommend that the amount payable should be linked to the relevant rates used in the calculation so the measure remains relevant in the future.

We also agree with the details outlined in paragraph 27 whereby the payments will be considered within the tax free component and will not form part of an individual’s contribution cap. Naturally this amount should be preserved.

Furthermore, we concur that the amount should not count towards any social security payment nor should it be included in an individual’s income tax return. AIST believes that this will be difficult to achieve for anyone over age pension age, and therefore, amounts will need to be explicitly carved out of both the assets test, and also the income test where these amounts would otherwise affect deemed income or income stream amounts.

Administration of the measure

The ATO has to date successfully managed the government co-contribution scheme and is best placed to administer the proposed measure. The administrative processes outlined are largely similar to the current government co-contribution and consequently the system should not impose a significant burden on funds or the ATO, although we acknowledge that there will be an additional cost to the superannuation system and consequently its members.

With regards to individuals with multiple accounts, AIST agrees that the contribution should be payable into the account with the highest eligible concessional contributions as this will be most likely the individual’s most active account.

Later determinations and amendments

Although AIST fully understands and agrees with the intent of this section of the proposal, the events listed only take into account circumstances where the individual's account to which the contribution was paid is still open. It is not clear what will happen if the individual has closed or rolled over the relevant account.

In respect to a closed account, if the individual does not have any other identifiable superannuation accounts, will the ATO attempt to recover any overpayment from the individual directly? This seems the only avenue to recoup the monies.

When an individual has rolled over the relevant account, then the ATO will need to use TFN details to potentially track the individual's new account. This may be made easier with the rollout of SuperStream and the superannuation portal.

Regardless, a step that must be included is that of direct communication from the ATO to the individual concerned with explanation as to why the contribution has been recalculated.