

12 July 2011

Manager
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Dear Sir/Madam

Consultation Paper – Low Income Earners Government Superannuation Contribution

National Seniors appreciates the opportunity to comment on the proposed policy parameters for the measure outlined in The Treasury's Consultation Paper *Low Income Earners Government Superannuation Contribution*.

Background

This measure is one of four superannuation initiatives announced in May 2010 as part of the Government's tax plan *Stronger, Fairer, Simpler: A Tax Plan for our Future*. The other superannuation measures contained in the tax plan are:

- an increase in the concessional contributions caps for individuals over 50 with low superannuation balances;
- an increase in the Superannuation Guarantee from 9 per cent to 12 per cent, over seven years commencing in 2013-14; and
- raising the Superannuation Guarantee age limit from 70 to 75.

Concessional superannuation contributions are currently taxed at a flat rate of 15 per cent. As a result, low income earners receive little or no income tax concession on their superannuation guarantee contributions and may have the contributions taxed more heavily than their normal income. This measure is intended to improve the equity of superannuation taxation arrangements, by effectively rebating the tax payable on concessional superannuation contributions made by or for low income earners.

Under the measure outlined in the consultation paper, the Government would provide a superannuation contributions tax rebate of up to \$500 annually for individuals with adjusted taxable incomes of up to \$37,000, with effect from the 2012-13 income year. The rebate would be paid directly into an individual's superannuation account and would be calculated by applying a 15 per cent rate to the concessional superannuation contributions made by or for eligible individuals up to the income limit. This is set at the cut-off point for the current 15 per cent personal marginal tax rate and it is not intended to index this income limit. Likewise, it is not intended to index the maximum annual amount payable.

Concessional superannuation contributions made in 2012-13 and later years would be eligible for the payment, with the first payments to be made into eligible individual's accounts in 2013-14. No age test would be applied and New Zealand citizens would also be eligible for the payment in recognition of the close economic relationship between Australia and New Zealand. Individuals would not need to apply for the payment, but those who are not otherwise required to lodge an income tax return will be required to do so, in order to be eligible for the payment. The amount payable will be treated as a tax-free component when ultimately paid as part of a benefit from the superannuation provider, and the payment will not count towards either the concessional cap or the non-concessional cap, nor towards any social security income tests. The amount would not need to be included in the individual's income tax return.

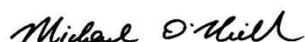
National Seniors' position

Overall, National Seniors welcomes the May 2010 package of superannuation initiatives, which over time should significantly improve Australians' retirement savings and help enable them to achieve a better standard of living in retirement. The low income earners measure is especially welcome as it remedies a significant inequity in relation to the 3.5 million low income workers who currently receive little or no tax concession on their superannuation savings.

We note that since Treasury released its consultation paper, the Government announced on 10 July 2011 that it would make some changes to personal income tax rates in conjunction with the introduction of the proposed carbon tax. The current 15% marginal tax rate will rise to 19% on incomes over the tax-free threshold of \$18,201 in 2012-13 and \$19,401 in 2015-16, up to an income threshold of \$37,000. This would be accompanied by changes to the Low Income Tax Offset to better align statutory tax rates with effective tax rates that people actually pay. It appears that these proposed changes will not adversely affect the low income earners Government superannuation contribution initiative.

National Seniors supports the design parameters of the measure, as outlined in the consultation paper, with one important caveat. We note that the \$500 annual limit for the payment would fully compensate low income earners for the contributions tax payable on their 9 per cent superannuation guarantee contributions in the first year of the measure's operation. However, it will fall short of the compensation required to fully offset the contributions tax payable from 2013-14 and subsequent years, when it is planned that superannuation guarantee (SG) contributions will progressively increase from 9 to 12 per cent of workers' ordinary time earnings (see Attachment A for details). **National Seniors considers that it is vital to maintain the integrity of this measure, by progressively increasing the maximum annual payment amount to a level that would fully offset the contributions tax payable by low income earners on their SG contributions.**

Yours sincerely



Michael O'Neill
Chief Executive

**Impact of Rises in Superannuation Guarantee Contributions
on the Adequacy of the \$500 Annual Payment (Unindexed)**

Financial Year	Mandatory SG contributions	Annual SG contribution at \$37,000 \$	Superannuation contributions tax paid \$	Maximum proposed tax rebate \$	Shortfall \$
2012-13	9%	3330.00	499.50	500.00	0.50
2013-14	9.25%	3422.50	513.38	500.00	-13.38
2014-15	9.50%	3515.00	527.25	500.00	-27.25
2015-16	10%	3700.00	555.00	500.00	-55.00
2016-17	10.50%	3885.00	582.75	500.00	-82.75
2017-18	11%	4070.00	610.50	500.00	-110.50
2018-19	11.50%	4255.00	638.25	500.00	-138.25
2019-20	12%	4440.00	666.00	500.00	-166.00