119669

PRIME MINISTER
CANBERRA

Reference: B12/488

Senator Bob Brown
Senator for Tasmania
Parliament House
CANBERRA ACT 2600

04 MAR 2012

Dear ~~Senator~~ Bob Brown

Thank you for your letter of 9 February 2012 regarding superannuation contribution tax concessions.

In accordance with our agreement, your request for a costing on this proposal was sent to the Treasurer, the Hon Wayne Swan MP. This costing has been completed and is attached to this letter. I note that your original request was for the 'rebate' component to be set at 15 per cent, but that further correspondence with your staff confirmed that the rebate would be set at 18 per cent.

I have provided a copy of this letter and attachment to the Treasurer and the Minister for Finance and Deregulation.

Yours sincerely

Julia Gillard

RECEIVED

Correspondence Received
Office of the Deputy Prime Minister & Treasurer
☐ Substantive response
☐ Constituent response
☐ Acknowledgment
To be signed by:
☐ DPM
☐ Chief of Staff
☐ Adviser

08 MAR 2012

☐ Refer to policy area for appropriate action
☐ Refer to appropriate Minister
☐ Refer to appropriate Tsy Minister
☐ URGENT
☐ No Further Action
☐ Other ....

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ATTACHMENT A: COSTING REPORT — PRO-FORMA

Name of policy costed:	Fairer superannuation contributions tax concessions
Person making the request:	Senator Brown, Leader of the Australian Greens
Date received from Prime Minister's office:	9 February 2012
Summary of policy:	Concessional contributions are taxed at a person's statutory marginal tax rate and a credit of 18 per cent is provided on pre-tax contributions. The Low Income Super contribution is abolished and there are no higher concessional contributions caps for those aged over 50.
Additional information requested (including date):	Email from of 14 February 2012 requested additional information on policy parameters, start date and what to do with the Low Income Superannuation Contribution (LISC), the Co-contribution and aged based concessional contribution caps.
Additional information received (including date):	Email from of 16 February 2012 details responses to the above queries.

FINANCIAL IMPLICATIONS – 18 PER CENT CONCESSION ON CONCESSIONAL CONTRIBUTIONS

Impact on	2011-12	2012-13	2013-14	2014-15
Fiscal Balance ($m)	0.0	0.0	-11,700	-12,700
Underlying Cash Balance ($m)	0.0	0.0	-8,700	-12,400

A positive (negative) number for the fiscal balance indicates an increase (decrease) in revenue or a decrease (increase) in expenses.

FINANCIAL IMPLICATIONS – CONTRIBUTIONS TAX — TAX CONTRIBUTIONS AT STATUTORY MARGINAL RATES

Impact on	2011-12	2012-13	2013-14	2014-15
Fiscal Balance ($m)	0.0	0.0	22,000	24,200
Underlying Cash Balance ($m)	0.0	0.0	16,500	23,600

A positive (negative) number for the fiscal balance indicates an increase (decrease) in revenue or a decrease (increase) in expenses.

FINANCIAL IMPLICATIONS – CONTRIBUTIONS TAX — REMOVING THE EXISTING TAX ON CONCESSIONAL CONTRIBUTIONS

Impact on	2011-12	2012-13	2013-14	2014-15
Fiscal Balance ($m)	0.0	0.0	-10,600	-11,300
Underlying Cash Balance ($m)	0.0	0.0	-7,900	-11,200

A positive (negative) number for the fiscal balance indicates an increase (decrease) in revenue or a decrease (increase) in expenses.

FINANCIAL IMPLICATIONS – ABOLISH THE LOW INCOME SUPERANNUATION CONTRIBUTION

Impact on	2011-12	2012-13	2013-14	2014-15
Fiscal Balance ($m)	0.0	0.0	976	954
Underlying Cash Balance ($m)	0.0	0.0	0.0	875

A positive (negative) number for the fiscal balance indicates an increase (decrease) in revenue or a decrease (increase) in expenses.

FINANCIAL IMPLICATIONS – INCREASE IN PERSONAL INCOME TAX COLLECTIONS

Impact on	2011-12	2012-13	2013-14	2014-15
Fiscal Balance ($m)	0.0	0.0	1,900	1,800
Underlying Cash Balance ($m)	0.0	0.0	1,700	1,800

A positive (negative) number for the fiscal balance indicates an increase (decrease) in revenue or a decrease (increase) in expenses.

TOTAL FINANCIAL IMPACT

Impact on	2011-12	2012-13	2013-14	2014-15
Fiscal Balance ($m)	0.0	0.0	2,600	2,900
Underlying Cash Balance ($m)	0.0	0.0	1,500	2,800

A positive (negative) number for the fiscal balance indicates an increase (decrease) in revenue or a decrease (increase) in expenses. Numbers may not add due to rounding.

Costing assumptions

- The commencement date for the policy is 1 July 2013. This commencement date is intended to allow time for systems changes however the ATO has not been consulted on whether this start date is appropriate.
- The costing utilised a 16 per cent sample of confidentialised unit record data provided by the Australian Taxation Office for the 2009-10 income year. The sample consists of 1.97 million observations of which 1.45 million have deductible contributions.
- 2009-10 superannuation and income tax variables are generally uprated by projected growth in average weekly earnings (AWE). Where appropriate, some variables are uprated by the Consumer Price Index (CPI). The model assumes compliance with concessional contribution caps, that is, individuals are assumed not to pay excess contributions tax. Any excess contributions (through either indexation of concessional contributions, expiration of the transitional caps or ECT payers in the 2009-10 tax file) are added back into taxable income in line with the proportions outlined in the 'Behavioural Assumptions' section.
- The costing assumes contributions are taxed at statutory marginal tax rates, with the pre-tax contributions receiving a tax concession of 18 per cent. Post-tax contributions are assumed ineligible for this concession.
- Tax on contributions is paid at marginal rates. This is calculated by adding concessional contributions to taxable income and taxing them at statutory marginal rates. Some people will cross thresholds and be on a higher statutory marginal rate for contributions than their taxable income.
  - For example, an individual in 2013-14 who has a taxable income of $75,000 and $10,000 of concessional contributions would pay a 32.5 per cent marginal tax rate on the first $5,000 of their contribution (up to the $80,000 income tax threshold) and a 37 per cent marginal tax rate on the remaining $5,000 of their contribution.
- Concessional contribution caps are $25,000 in 2013-14 for all people, indexed to $30,000 in 2014-15 to reflect the expected indexation of the current general cap in 2014-15. The higher cap for people aged 50 and over with low balances is removed.
- The Low Income Superannuation Contribution (LISC) is abolished from 1 July 2013.
- It is assumed that some high income people reduce their discretionary contributions (salary sacrifice contributions, or deductible contributions made by the self-employed) due to the reduction in tax concessions from contributing to superannuation. For individuals assumed to change their behaviour, reduced contributions result in higher taxable incomes. See 'Behavioural Assumptions' below for more information.
- Departmental expenses have not been included in this costing, but given the nature of the policy changes proposed, may be significant.

- Current Treasury projections of AWE and CPI growth were used in projections. Superannuation balances are assumed to remain constant in nominal terms from 2009-10 to 2012-13 and growth at 6.5% thereafter.
- Timing factors related to payment of income tax by individuals and superannuation funds, as well as the payment of current benefits such as the LISC, have been used to adjust the costing from fiscal balance to underlying cash balance terms.

Qualifications

- The costings are sensitive to the assumptions used, including assumptions regarding behavioural change.
- The costing is sensitive to assumptions regarding changes to the population, future growth in wage, salaries and deductible contributions, and general price inflation.

Where relevant, state that the proposal has been costed as a defined or specified amount

Not applicable.

Where relevant, include separate identification of revenue and expense components

- Taxing contributions at statutory marginal tax rates, forgone contributions tax and increased personal income tax are revenue components.
- The 18 per cent credit would be expense component. Timing will depend on the manner in which the concession could be accessed.
  - As the costing request clarification noted that this concession was intended to be available to offset superannuation fund income tax as it falls due, for costing purposes it was assumed that the concession is effectively available as part of quarterly tax instalments made by superannuation funds, and thus reduces net revenue collected from superannuation funds.
- The abolition of the LISC is an expense measure.

Where relevant, include a range for the costing or sensitivity analysis

See 'Behavioural assumptions' section.

Where relevant, explain the costing methodology used such as - costing techniques; policy parameters; statistical data used

Policy parameters

- Statutory marginal tax rates and other personal income tax parameters are based on those announced in the Clean Energy Future package.
- Under the current system, the general concessional contribution cap is expected to be indexed to $30,000 in 2014-15.

Statistical data

- See 'costing assumptions' above.

Where relevant, insert the behavioural assumptions used (as appropriate)

- It is assumed that in aggregate, high income earners will reduce their level of salary sacrifice or self-employed contributions due to the large reduction in their superannuation contribution tax concession. Under current personal income tax policy for 2013-14, people on the top (second top) marginal rate currently receive a 31.5 (23.5) per cent concession allowing for the scales and the Medicare Levy (46.5% - 15%) [38.5% - 15%]. Those in the withdrawal range for the low income tax offset will receive an additional 1.5% concession. Under the Greens proposal, the concession would be 18 per cent received in the fund. Super Guarantee contributions are not reduced.
  - If a person's taxable income plus their deductible contributions is greater than $180,000 (and therefore taxed at the top marginal rate) they are assumed to reduce salary sacrifice and self-employed contributions by 20 per cent.
  - Those with taxable income plus contributions between $80,000 and $180,000 are assumed to reduce salary sacrifice and self-employed contributions by 10 per cent.
  - A larger behavioural response would result in greater loss to individuals (gain to Government) as increased personal income tax collections outweigh lost contributions tax (net of the 18 per cent concession). The reverse also holds.
- Reductions in contributions lead to an increase in taxable income.
  - For those pursuing tax reducing strategies (such as negative gearing or receiving distributions from trusts), contributions are added to taxable income at reduced rates of 55 per cent for those with negatively geared income and 90 per cent for those receiving distributions from trusts only. For other individuals, 100 per cent of the reduction in contributions flows through to increased taxable income. These estimates are based on recent historical evidence of how changes to concessional contribution caps have affected the taxable incomes of individuals in each of these categories.
  - Some people are forced to reduce their concessional contributions (from up to $50,000 down to the proposed $25,000 cap) due to the removal of the high cap for people aged 50 and over with superannuation balances of less than $500,000. Reductions in contributions for these people are added back into taxable income using the above methodology.

Distributional Implications

Losers

- There would be some losers on the bottom tax rate. These people are expected to lose as they would effectively pay a 1 per cent tax on contributions (19 per cent marginal rate less the 18 per cent offset) whereas before they paid zero contributions tax after allowing for the impact of the LISC. In addition, some people in this income range would cross the $37,000 income threshold for the marginal rate and pay contributions tax at the 32.5 per cent marginal rate in respect of a proportion of their total contributions.

- People earning $37,000 to $80,000 could be worse off as a result of:
  - crossing the $80,000 income tax threshold when their contributions are added to their taxable income (and thus paying 37 per cent contributions tax for part of their total contribution); or
  - reducing their concessional contributions from the removal of the higher cap for people aged 50 and over with superannuation balances of less than $500,000.

- People on incomes of $80,000 or greater would pay a higher contributions tax after the tax concession and lose without exception.

- The removal of the $50,000 cap for people aged 50 and over with superannuation balances under $500,000 would result in losses for some people making high levels of contributions.

Winners

- Winners would include people under the tax free threshold who, after the LISC, currently pay no tax on superannuation contributions and now receive an 18 per cent tax credit for contributions.

- Some individuals on the 19 per cent marginal tax rate who make significant contributions may benefit. Where concessional contributions exceed $5,556, a flat 1 per cent net contributions tax would provide a lower net contributions tax liability than the current system of a 15 per cent contributions tax and a maximum LISC entitlement of $500.

- People on the 32.5 per cent marginal tax rate (earning between $37,000 and $80,000) go from paying the 15 per cent contributions tax to paying 14.5 per cent (32.5 per cent less the 18 per cent concession). This would result in some people gaining a small benefit (0.5 per cent of their deductible contribution) from the policy.