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Clarification of Greens Costing Request – Fairer Superannuation Tax concessions

On 7 February, Senator Bob Brown requested a Treasury costing of a proposal to tax superannuation contributions at marginal tax rates less 15 per cent. The examples used in the policy referred to current tax brackets and rates (e.g. dot point 6 under ‘Superannuation Statistics’) rather than the brackets and rates to apply from 1 July 2012. Treasury requires clarification of the following issues in order to cost the policy -

Marginal tax rate: Is the MTR from the tax scales alone, or does it also include other items subject to individual income tax withholding such as the Medicare levy and the low income tax offset?

The press release says that the proposal “would increase the concession for low income earners, leave it about the same for average income earners and reduce it for high income earners”. For a person with taxable income in the \$37,001 to \$80,000 bracket the tax rate will be 32.5% from 1 July 2012 – so their contributions would be taxed at 17.5% rather than 15% now. Are the Greens anticipating changes to the policy as the tax rates change (see below)?

	Current		2012-13		2015-16	
	Threshold (\$)	Marginal Rate	Threshold (\$)	Marginal Rate	Threshold (\$)	Marginal Rate
1st Rate	6,001	15%	18,201	19%	19,401	19%
2nd Rate	37,001	30%	37,001	32.5%	37,001	33%
3rd Rate	80,001	37%	80,001	37%	80,001	37%
4th Rate	180,001	45%	180,001	45%	180,001	45%
Effective tax free threshold	16,000		20,542		20,979	
LITO	1,500	4% withdrawal rate	445	1.5% withdrawal rate	300	1% withdrawal rate

Taxation point: The taxation point affects the timing of revenue, which is a vital ingredient of a formal costing. Currently concessional contributions are taxed in the superannuation fund. Is the intention to continue this with a mechanism like the former superannuation surcharge? If not, is the intention to have all employers change their payroll systems with a reconciliation by the ATO in the next year?

If fund taxation continues to be used, will there be new rules assigning the funds expenses to individuals, or will expenses be offset against the earnings tax of the fund?

Base: Does the policy only apply to concessional contributions made by employers and the self-employed? Will there be any change in arrangements for non-concessional ('post-tax') contributions?

Start date: Given the large system changes involved Treasury does not see that the policy could start until 1 July 2013. Do the Greens anticipate a later start date?

Low income superannuation contributions (LISC): The Government's policy is to pay a low income super contribution up to \$500 for concessional contributions by people with assessable income up to \$37,000. The policy would apply to concessional contributions made in 2012-13 and subsequent years. Is it the Greens' intention to abolish this policy? If so, from what date?

Co-contribution: The government co-contribution applies to non-concessional contributions. Is it the Green's intention to abolish this policy? If so, from what date?

Caps: Are the current superannuation caps to remain in place? From 2013-14 this would imply a concessional cap of \$25,000 for people under 50 or over 50 with a balance of over \$500,000, and a cap of \$50,000 for people over 50 with a balance of under \$500,000.

Behavioural Change: The policy reduces incentives for higher income earners to invest in superannuation. A Budget standard costing will include first round behaviour change. Treasury will estimate behavioural impact having regard to the available evidence. Do the Greens have any information they wish to provide to help inform that process?

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