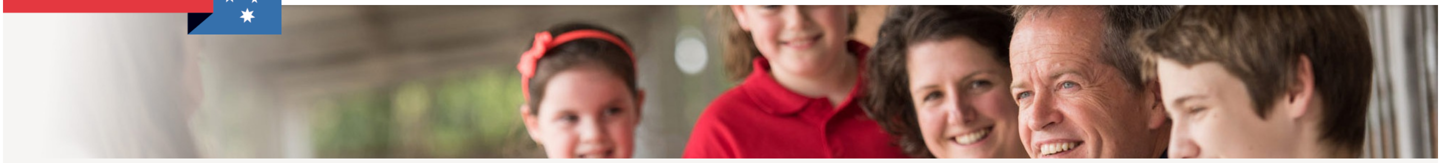


LABOR'S FAIRER SUPER PLAN

Labor is committed to ensuring the sustainability of the retirement income system in a way that delivers fairness and enables Australians to maintain a comfortable standard of living in retirement.

Tax concessions (forgone revenue) are an important part of the superannuation system, as they encourage people to contribute funding and preserve these savings until their own retirement.

These tax concessions benefit high income earners and over time will place an increasing burden on the Budget. This is unsustainable and unfair.

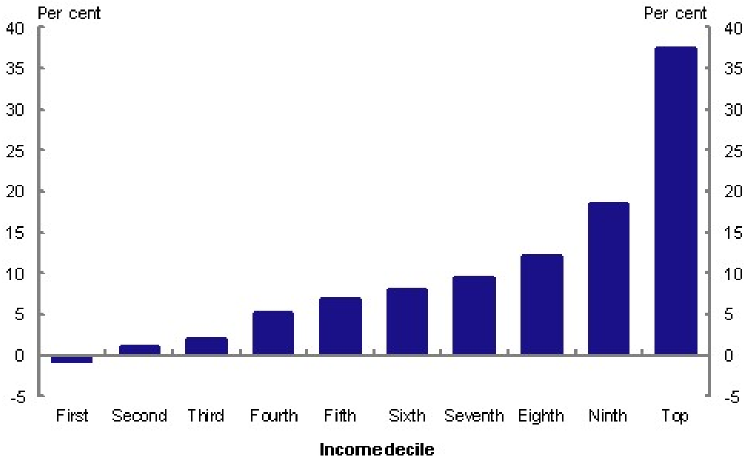
What is the issue?

High income earners, particularly very high-income earners, receive a disproportionately large amount of the superannuation concessions because the difference between their marginal tax rate and the concessional superannuation rates grows as their income increases.

The Government's own Financial System Inquiry found that 10 per cent of Australians receive 38 per cent of Australia's super tax concessions, more than the combined benefit of the bottom 70 per cent of Australians.

As the Inquiry found, *"the majority of tax concessions accrue to the top 20 per cent of income earners. These tax concessions are unlikely to reduce future Age Pension expenditure significantly."*

Figure 1. Share of total superannuation tax concessions by decile.



Source: Murray Inquiry Report p 138.

Action in this area has been recognised by a growing consensus of stakeholders including the:

- **Australian Chamber of Commerce and Industry;**
- **Association of Superannuation Funds Australia;**
- **Australian Council of Trade Unions;**
- **Industry Super Australia; and**
- **Australian Council of Social Service.**

A recent report by the Association of Superannuation Funds of Australia (ASFA) highlighted the unsustainable nature of the existing tax concessions, noting that there are 475 people with super balances in excess of $10 million who are earning tax-free income of about $1.5m each year. In addition, more than 24,000 self-managed super funds with account balances of more than $2m have annual tax-free earnings in the hundreds of thousands.

As Australia's workforce ages, a growing number of Australians will retire and start accessing their superannuation.

Earnings from superannuation in the retirement phase were previously taxed however these arrangements were changed in

2006.

Superannuation earnings in the retirement phase are currently tax free, an arrangement that has lead to significant growth in the size of superannuation earnings concessions.

The cost to the taxpayer of superannuation earnings tax concessions (or forgone Budget revenue) will almost double over the next four years from $11.8 billion in 2014-15 to $22.4 billion in 2017-18, and continue to grow at a rate that is unsustainable.

Table 1. Growth in foregone budget revenue from superannuation tax concessions

Year	Contributions ($m)	Growth	Earnings ($m)	Growth
2014-15	$15,550		$11,750	
2015-16	$16,450	5.8%	$13,700	16.6%
2016-17	$17,150	4.3%	$18,250	33.2%
2017-18	$18,100	5.5%	$22,450	23.0%

What is Labor's plan?

Labor's plan is to put the retirement income system on a sustainable footing by targeting superannuation tax concessions to those that need them the most.

1. Reforming the tax exemption for earnings on superannuation balances that exceed $1.5 million

The tax-free status of all superannuation earnings is disproportionally beneficial to high income earners and is unsustainable.

Labor will better target the tax concession for earnings on superannuation assets supporting retirement income streams. This measure will only apply to those in retirement.

The proposed measure would reduce the tax-free concession available to people with annual superannuation incomes from earnings of more than $75,000. From 1 July 2017, future earnings on assets supporting income streams will be tax-free up to $75,000 a year for each individual. Earnings above the $75,000 threshold will attract the same concessional rate of 15 per cent that applies to earnings in the accumulation phase.

This measure will affect approximately 60,000 superannuation account holders with superannuation balances in excess of $1.5 million.

Importantly, the policy settings mean that this reform will not impact full or part aged pension as the basic income test for the aged pension (singles and partnered) is under the $75,000 threshold. Under the proposal, capital gains will be grandfathered.

To ensure that similar concessions are reduced for defined benefit superannuation schemes, Labor will also remove the 10% tax offset for defined benefit income above $75,000, estimated to effect approximately 9,500 account holders.

Example 1. Doug

Doug is 63 years old, retired and he has $800,000 in super. Doug's super is in its pension phase where earnings are tax-free. Last year Doug's super earned $40,000 (at a rate of 5 per cent) which he has taken as income. Doug is entitled to a part pension.

Under Labor's proposed policy Doug will not see any changes.

Example 2. Susie

Susie is also 63 years old, retired and she has $1.8m in super. Susie's super is in its pension phase where earnings are tax free. Last year Susie's super earned of $90,000 (at a rate of 5 per cent) which she has taken as income. Susie earns too much to be entitled to a part pension.

Under Labor's proposed policy, Susie will pay 15 per cent tax on earnings over $75,000. . Susie continues to earn $75,000 tax free, but will face a concessional 15 per cent rate on the remaining $15,000. This equates to $2250, and after tax earnings of $87,750.

Financial implications

Measure	Description
Pension phase, reduce concessions for high-income account balances	Reduce concessions by 15% for earnings $75,000 ann

2. Reduce the Higher Income Superannuation Charge (HISC) threshold from $300,000 to $250,000

Current superannuation tax concessions provide greater benefit to people on high-incomes than people on average incomes.

For instance, someone on $250,000 currently receives a concession of 30 per cent from their top marginal tax rate on superannuation contributions, while someone on $35,000 currently receives a concession of only 4 per cent from their top marginal tax rate.

In Government Labor introduced the High Income Superannuation Contribution which lowered the tax concession available to people on very high incomes – above $300,000 – by 15 per cent on their contributions.These high contributions are now taxed at 30 per cent – to better align the concessions with those on low and middle incomes.

This policy went some way to better aligning tax concessions received by those on very high incomes with those received by people on average incomes.

Labor is proposing to improve this measure by lowering the HISC threshold to $250,000. Around 110,000 people will be affected by the new arrangements.

This would more closely align the concessions receive by those on middle incomes with those on very high incomes, so that tax relief for superannuation contributions are distributed more fairly, and sustainably.

Even under the proposed changes, high income individuals will still maintain a 15 per cent tax concession on their superannuation contributions.

Example 3. Steve

Steve is 54 years old and earns $250,000 a year and contributes $23,750 to super, for a combined total of $273,750. As the full amount of his super contributions exceed the high income super charge cap, Steve will no longer receive a 30 per cent concession on his top marginal tax rate of 45 per cent on his superannuation contributions and will now receive a 15 per cent concession.

Example 4. Jane

Jane is 45 years old and earns $235,000 a year and contributes $22,325 to super, for a combined total of $257,325. As $7,325 of her combined total exceeds the cap, Jane continues to receive a 30 per cent concession for her contributions up to the $250,000 threshold and then receives a 15 per cent tax concession on her top marginal tax rate of 45 per cent on the contribution she makes exceeding the $250,000 threshold.

Example 5. Penny

Penny is 28 years old and earns $220,000 a year and contributes $20,900 to super, for a combined total of $240,900. As her combined income does not exceed the cap, Penny continues to receive the existing 30 per cent concession on the top marginal tax rate of 45 per cent for her contributions, and there is no change.

Measure	Description
Superannuation contributions, fairer concessions	Reduce the higher income superannuation charge from $300,000 to $250

How will these measures be implemented?

As with any change to superannuation Labor will work to ensure that this is implemented with minimum cost to funds and superannuants.

Importantly, Labor will provide extra resources to the Australian Tax Office so it is well equipped to shoulder the bulk of implementation work.

Labor will be consulting with the industry in the lead-up to the next election on the implementation of this package.

If elected these are the final and only changes Labor will make to the tax treatment of superannuation.