baptist care australia
we have a dream

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5 June 2015

Tax White Paper Task Force
The Treasury
Langton Crescent
PARKES ACT 2600

Baptist Care Australia (BCA) would like to make a submission in response to the Treasurer's call for consultation on the Discussion Paper released on 30 March 2015.

The submission has three elements:

1. The first element is this cover letter which seeks to outline the views of BCA in terms of the contemporary tax policy reform process and identify issues which BCA believes are of greater urgency and can be subject of policy change in the shorter term.
2. The second element is a detailed policy document which outlines BCA's vision for tax reform; the principles which it thinks should guide tax reform and the ethical stance we bring to the debate. This document includes a broad range of recommended policy changes (Attachment A).
3. The third element involves economic modelling of a specific policy recommendation to change the contributions tax rate from 15% to half the marginal tax rate of the contributor (Attachment B).

The policy document which forms the core of this submission is entitled Taxation Reform Policy and included in Attachment A. This document is the result of a rigorous internal consultation process in BCA which includes the advice expert tax practitioners. We have a vision of a tax and transfer system that is equitable, sustainable, simple and sufficient to meet funding of services to the whole population while maintaining incentives for the contribution of labour and capital for the advancement of society. In line with the Henry report "Australia's Future Tax System" BCA endorses the application of the broad principles of equity, efficiency, simplicity, sustainability and policy consistency as the key criteria to guide tax reform.

BCA expresses the view that over time these goals have not been achieved as changes to taxation legislation have tended to favour the interests of high net worth individuals and those on high incomes who have means to reduce or avoid the principle of vertical equity embodied in the progressive tax scales. Discreet government decisions over time have resulted in a system which is inconsistent in terms of policy direction and overly complex and inequitable. The tax system greatly favours those who can structure their affairs through companies, trusts, and other structures or who can earn returns from capital as opposed to income from labour.

BCA makes twelve recommendations which seek to improve the integrity of the tax system and broaden the tax base. The recommendations are listed in the table at the end of this document. Many of these recommendations are long term policy goals and are not likely to be the subject of government consideration in the shorter term. Moreover they do not rule out other options which could be explored in the future.

The issue which BCA identifies as an immediate area of potential reform is that of changes to the taxation arrangements of superannuation contributions. The level of taxation concessions attributable to higher income superannuation contributors places a very high burden on the taxpayer and is regressive. The problem is growing greater every year and there is an urgent need to reduce the amount of superannuation tax concessions enjoyed by higher income earners.

BCA recommends that the Government apply a tiered arrangement for the taxation of taxable superannuation contributions at 50% of the relevant taxpayer's marginal rate (Recommendation III a). There are a number of arguments that can be offered to support the BCA proposal:

1. The first is that the proposal could be expected to redistribute tax concessions embodied in the current concessional regime more progressively. Those on lower incomes would enjoy a zero tax rate and those on higher incomes would face an increased rate of 22.5%. The proposed change links tax concessions more directly to the income of the contributor.
2. Secondly, the measure raises additional revenue which can be used to sustain social welfare expenditure.
3. Thirdly, the measure would encourage greater take-up of superannuation amongst lower income Australians and increase their superannuation savings. This would in term help to encourage greater self-provision for retirement from the lower income cohort with consequent reductions in the cost to the Government from the Age Pension over time.

As outlined above BCA has commissioned economic modelling on this proposal. This research has been prepared by Dr Brendan Long. Dr Long is a Senior Research Fellow at the Australian Centre for Christianity and Culture at Charles Sturt University. He is an economist with over two decades of experience in key government agencies (Treasury, Productivity Commission, the Department of Prime Minister and Cabinet, and the Office of National Assessments) and has held leadership policy roles in national peak organisations in the private and not for profit sectors (including Catholic Social Services Australia and National Disability Services). Dr Long holds a BEc from the ANU, a M.Litt from the ANU and a PhD from the University of Cambridge. The results of Dr Long's analysis are included in Attachment B. This change offers the potential to raise an additional $1.5bn in last year of the Forward Estimates and would have a favourable distributional impact relative to current arrangements.

BCA would be open to working with Treasury to discuss further the implications of this proposal and the detailed modelling methodology.

Yours sincerely

CAROLYN KELSHAW
EXECUTIVE DIRECTOR

BCA recommendations for tax reform:

I. Improve equity, efficiency and reduce complexity by abolishing the extreme capital gains tax concessions available to small business apart from rollover relief when purchasing another business.
II. Improve equity by introducing a top tax rate to apply to those with very high taxable incomes i.e. those over $360 K per annum.
III. Improve equity by changing the taxation of superannuation and retirement incomes as follows:
   a. Contributions to be taxed on a tiered arrangement of 50% of the relevant taxpayer's marginal rate.
   b. Introduction of a tax on any excess of super pensions over two times the age pension.
   c. Removal of annual concessional contribution limits so that limits on concessions are based on achieving a pension of no more than 3 times the government pension.
   d. Increasing the age at which a person can receive concessional tax treatment of their superannuation pension from 60 to the pension age so there is consistency in retirement incomes policy.
   e. Abolition of transition to retirement arrangements which facilitate tax avoidance.
IV. Improve equity between those who earn income from interest and those who earn income from shares and property by applying the 50% concession on capital gains to interest income earned by individuals.
V. Improve equity and sustainability by introduction of a wealth tax e.g. removal of concessions on capital gains for deceased estates above a thresholds to capturing wealth of the top 20 percent of individuals who control over 60% of assets.
VI. Improve equity, sustainability and consistency and reduce complexity by removing the current capital gains tax exemption for pre September 1985 assets. This means any gain in the market value of pre 1985 assets that occurs after the date when the exemption is removed would be subject to capital gains tax.
VII. Improve equity and sustainability by removing the tax incentives to distribute income from Discretionary family trusts to unlisted companies.
VIII. Reducing the company tax rate to 25 percent but introducing the resource rent tax as it was originally intended by the Henry tax review.
IX. Improve equity by targeting the current level of child care subsidy to better target subsidy to lower and middle income families and exclude higher income families so the top 20 percent of income earners receive no subsidy.
X. Improve equity by abandoning the current proposed paid parental leave scheme in favour of one which has an upper limit of 75 percent of the average wage rather than $100K.
XI. Engage the State Governments to reach agreement on the introduction of a uniform land tax regime to enable replacement of inefficient state and federal taxes including stamp duty, payroll tax, and narrow based land tax.
XII. Ensure welfare benefits provide an adequate income for all those unable or without opportunity to work and rent assistance should be tied to movements in rental markets and applied consistently to all those on welfare benefits.

ATTACHMENT A

TAXATION REFORM POLICY

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WHO WE ARE

Baptist Care Australia is a passionate, innovative, Christian association of Baptist organisations around Australia. Our members bring life-enriching care to their clients, residents, families and communities. Our care for people arises from our belief that God desires wholeness in all aspects of life. Our collective mission is to express Christ's love as we serve people and includes addressing their physical, emotional and spiritual needs.

We are a significant member of our civil society, contributing substantially to the economic, physical and spiritual well-being of our community. The members of BCA have an annual turnover of around $0.6 billion, employ around 7,000 staff, and engage with almost 2,000 volunteers annually. BCA members are actively involved in the provision of Home Services and Residential Aged Care, with more than 300 villages and Residential Aged Care facilities as well as an ever increasing number of social and affordable housing units, providing homes to over 6000 older and vulnerable Australians.

In addition, member agencies of Baptist Care Australia are engaged in:

- Homelessness services
- Care services for young people under guardianship
- Refugee and Asylum seeker services
- Disability support services
- Respite services
- Outdoor recreation and adventure camping
- Community development initiatives
- Foster care
- Food for Life programmes to vulnerable communities
- Chaplaincy
- Gateway and referral services
- Food bank services to over 130 organisations
- Mental health support services
- Semi-independent and supported accommodation for young people
- Youth education and training services
- Employment services
- Community nursing services
- Delivery of training courses for individuals and families
- Aboriginal services
- Family relationship counselling
- Domestic violence accommodation and support
- Community housing
- Drug and alcohol services
- Low income services including financial counselling, 'no interest and low interest loans'

The Baptist Care Australia **Purpose Statement** has four core commitments which give rise to our vision of a transformed society based on Christ's values. Baptist Care Australia:

1. Gives a voice to those who are unable to advocate for themselves
2. Proposes innovative solutions to unmet social need through research
3. Advocates for the role of the faith-based, not-for-profit sector in society; and
4. Optimises the collective capabilities of its members' organisations.

In accomplishing these commitments Baptist Care Australia aims to be shaped by the following core values:

- **Respectful Advocacy** – we will always undertake our advocacy role in a respectful manner
- **Co-operation** – We recognize the importance of working together to meet the challenges of our Vision and Mission

- **Open Communication** – We will be open, honest and respectful in our communication with each other and others
- **Integrity** – We make our decisions and actions accountable, based on evidence and speak the truth.
- **Stewardship** – We are responsible and accountable for all our shared resources and relationships as we work towards the Vision & Mission of BCA

Baptist Care Australia understands itself as being led, in its purposes and core values, by Christ's Sermon on the Mount[1]. This sermon and its context challenge us to communally and constructively reflect on and critique the current power structures in our society. It disputes conventional assumptions about wealth and influence. It inverts the usual human hierarchy of privilege. It outlines an ethical framework arising from a way of following Christ which motivates speech and action to address both the needs of the individual and the structural causes behind that need.

This ethical framework points towards justice and care for creation, the marginalised, the sick and the vulnerable. It seeks justice for those at risk, the mentally ill and for those being sexually exploited in any context. It calls for transparency, honesty, trustworthiness and authenticity. It is a way of being that seeks peace, is self-controlled and understands there are consequences for the way we are and act. It values honest self-awareness. It understands the need for discernment, including compassionate discernment regarding different ways of being human.

It is an ethical framework that anticipates right living through generosity of spirit and action to others. It includes embracing the 'other' as one of us, extending costly love and hospitality and treating them as we would like to be treated ourselves. It provides the life-giving foundation for wellbeing, freedom, wholeness and flourishing in society.

In a just society ethical judgment based on such a framework simplifies the making of policy, eliminating unacceptable options and encouraging good policy making. This does not deny the complexities of the situation. However this approach foregrounds ethical Christian considerations as the starting point for policy formation after which complexities can be dealt with.

Baptist Care Australia has sought to use this approach in formulating the following social policy.

[1] Baptist Care Australia, being led by Christ's Sermon on the Mount (Matthew Chapters 5, 6 & 7)

TAXATION REFORM

1. VISION

Our vision is for a tax and transfer system that is equitable, sustainable, simple, and sufficient to meet services to the whole population while maintaining incentive to contribute labour and capital for the advancement of society.

2. ISSUE / PROBLEM DEFINITION

All nations require revenue to provide public services, funded by public revenue for the benefit of the nation. Two key issues frame consideration of taxation reform: how and where do governments generate revenue, and how and where do governments allocate that revenue? The tax and transfer system is the main institutional tool through which income is redistributed in developed countries. There is overwhelming evidence that successive governments in Australia have legislated a tax regime that continually benefits those of high net worth and those on high incomes who have means to reduce or avoid the intent of progressive income tax scales. The tendency of Government to manage expenditure rather than revenue means welfare benefits and public services are continually reduced adversely impacting on low income earners

Australia is a low tax country by international standards. In 2010, Australia's tax-to-GDP ratio was 25.6 per cent — below the OECD average of 33.8 per cent[i]. This means Australia is the fifth lowest tax country in the OECD.

As demonstrated by continuing budget deficits in recent years, Australia's tax settings are too low to achieve the social outcomes that Australians desire around health, aged care, education and disability care. Yet most Australians believe they pay too much tax[ii].

Political debate has built a misconception that government is big taxing, big spending and inefficient and that the solution is to be found in cutting expenditure rather than raising revenue or taxes.

The ageing population will have a negative impact on both revenue and expenditure as the ratio of people working for every person over 65 will almost halve from 5 in 2010 to 2.7 by 2050.

Discreet government decisions over time have resulted in a system which is inconsistent in terms of policy direction, overly complex and inequitable. There is a wide held view amongst Australians that the Taxation and Transfer system is unfair[iii].

The tax system greatly favours those who can structure their affairs through companies, trusts, and other structures or who can earn returns from capital as opposed to income from labour.

The system does not provide a sustainable and adequate safety net for those who are below retirement age and unable to work due to socio economic circumstances, sickness or disability.

Any reform of the taxation system needs to take account of the fact that Australia operates a relatively open economy in an increasingly competitive global economy where capital and labour are increasingly mobile.

Increasing participation of women in the workforce, a shift to part time work for men, and increasing numbers of older workers means a trend towards a decrease in single income households and an increase in double and no income households which increases the need for an adequate safety net.

The distribution of wealth is very uneven as the richest 10 per cent of households headed by a person aged 65 or older hold 43 per cent of such households' total wealth, while the top 20 per cent hold 58 per cent.

An effective taxation and transfer system is critical to any strong social democracy. The criteria for such a system were established in "Australia's future tax system, Report to the Treasurer in December 2009" by former Treasury Chief Dr Ken Henry. The 5 criteria include:

- **Equity –** The system should treat individuals with similar economic capacity in the same way i.e. horizontal equity, while those with greater capacity should bear a greater net burden, or benefit less in the case of net transfers, i.e. vertical equity.
- **Efficiency** – The system should raise and redistribute revenue at the least possible cost to economic efficiency (the least change in behaviour of taxpayers) and with minimal administration and compliance costs.
- **Simplicity** – The system should be easy to understand and simple to comply with.
- **Sustainability** – The tax system should have the capacity to meet the changing revenue needs of the government on an ongoing basis without recourse to inefficient taxes.
- **Policy consistency** – the system should be internally consistent. That is rules in one part of the system should not contradict those in another part of the system.

3. BAPTIST CARE AUSTRALIA ETHICAL POSITION

The Baptist Care Australia policy on taxation reform is framed within a broad based Christian commitment to justice, equity and equality and a consistent concern for those who are vulnerable and disadvantaged in society. Throughout the Old and New Testament, there are references to the poor and the rich who are often said to oppress the poor and are exhorted to give to the poor.

The ordering of society for the benefit of the rich and powerful does not come as a surprise for the Christian, who should be wary of and discerning about state policy, given the influence that those of wealth have over it. As God created all humankind in his image and as Jesus displayed his care for the vulnerable and disadvantaged in society throughout his life, in his death, resurrection and continued care for his world, there can be no doubt that God cares for and values all people. It is not hard to derive the need for equity between people and support for the vulnerable from the example of Jesus.

Two core purposes of Baptist Care Australia are to:

- Give a voice to those who are unable to advocate for themselves
- Propose innovative solutions to unmet social need through research

These core purposes obligate Baptist Care Australia to translate commitment to justice, equity and equality and concern for those who are vulnerable and disadvantaged in society into social, political and cultural engagement.

4. POLICY OPTIONS AND RESPONSES

4.1 BAPTIST CARE AUSTRALIA

I. BCA adopts a policy position that supports the urgency for reform of the Tax and Transfer system involving all levels of government to achieve equity, sustainability, simplicity, efficiency and policy consistency.

II. BCA encourages all tiers of government, Baptist churches and the wider community to recognise that tax reform is a key national issue central to developing a prosperous and equitable society.

III. BCA commissions work to determine the economic and budget implications of the proposals outlined in this paper.

4.2 FEDERAL GOVERNMENT

BCA urges the government to reform the tax and transfer system to eliminate inequity, reduce complexity, increase efficiency and achieve sustainable revenues to meet the needs and desires of the Australian people. Specifically BCA urges the Government to:

I. Improve equity, efficiency and reduce complexity by abolishing the extreme capital gains tax concessions available to small business apart from rollover relief when purchasing another business.

II. Improve equity by introducing a top tax rate to apply to those with very high taxable incomes i.e. those over $360K per annum.

III. Improve equity by changing the taxation of superannuation and retirement incomes as follows:

   a. Contributions to be taxed on a tiered arrangement of 50% of the relevant taxpayer’s marginal rate.
   b. Introduction of a tax on any excess of super pensions over two times the age pension.
   c. Removal of annual concessional contribution limits so that limits on concessions are based on achieving a pension of no more than 3 times the government pension.
   d. Increasing the age at which a person can receive concessional tax treatment of their superannuation pension from 60 to the pension age so there is consistency in retirement incomes policy.
   e. Abolition of transition to retirement arrangements which facilitate tax avoidance.

IV. Improve equity between those who earn income from interest and those who earn income from shares and property by applying the 50% concession on capital gains to interest income earned by individuals.

V. Improve equity and sustainability by introduction of a wealth tax e.g. removal of concessions on capital gains for deceased estates above a thresholds to capturing wealth of the top 20 percent of individuals who control over 60% of assets.

VI. Improve equity, sustainability and consistency and reduce complexity by removing the current capital gains tax exemption for pre September 1985 assets. This means any gain in the market value of pre 1985 assets that occurs after the date when the exemption is removed would be subject to capital gains tax.

VII. Improve equity and sustainability by removing the tax incentives to distribute income from Discretionary family trusts to unlisted companies.

VIII. Reducing the company tax rate to 25 percent but introducing the resource rent tax as it was originally intended by the Henry tax review.

IX. Improve equity by targeting the current level of child care subsidy to better target subsidy to lower and middle income families and exclude higher income families so the top 20 percent of income earners receive no subsidy.

X. Improve equity by abandoning the current proposed paid parental leave scheme in favour of one which has an upper limit of 75 percent of the average wage rather than $100 K.

XI. Engage the State Governments to reach agreement on the introduction of a uniform land tax regime to enable replacement of inefficient state and federal taxes including stamp duty, payroll tax, and narrow based land tax.

XII. Ensure welfare benefits provide an adequate income for all those unable or without opportunity to work and rent assistance should be tied to movements in rental markets and applied consistently to all those on welfare benefits.

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[i] Australian Treasury

[ii] Per Capita Survey 2013

[iii] Per Capita Survey 2013

ATTACHMENT B

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MODELLING OF BCA TAXATION REFORM POLICY

Modelling of BCA Tax Reform Proposal

BCA has proposed a change in the taxation treatment of superannuation contributions from the current approach of taxing contributions at 15% to imposing a new tax at half of the marginal rate for a taxpayer.

Current tax treatment of superannuation contributions

- The tax payable on your super contributions generally depends on whether the contributions were made from before-tax or after-tax income and if total contributions remain under the cap on personal concessional tax contributions. Contributions made to the individual's fund from after-tax income or for which they are not claiming a deduction are generally free of contributions tax. They are not considered as Assessable Income in the hands of the superannuation fund. Concessional (before-tax) contributions usually involve employer contributions including salary sacrifice payments, contributions for which an income tax deduction is claimed, such as contributions made by the self-employed. These contributions are assessable income of the superannuation fund.
- The tax rate that the fund pays is 15% on Taxable Income. Taxable Income refers to Assessable Income after the applications of taxation deductions. Taxable Income is also reduced by tax credits, offsets and rebates of various types. Ultimately, the tax on contributions forms part of the total taxation outcome for a fund and is paid after submission of the fund's tax return.

The BCA proposal

Once a concessional contribution is made to the superannuation fund, tax is immediately levied on the contribution at the rate of one half of contributor's marginal tax rate. This rate will be provided to the fund by the ATO based on the previous years' tax return in a manner that satisfies the secrecy requirements of Taxation Legislation.

The value of the concessional contribution subject to the new tax rate will be reduced to reflect deductions, rebates, offsets and credits applied on the whole income tax base of the fund. The contributions component of fund income related to taxable contributions would be reduced by the same proportion as the Assessable Income of the fund as a whole is lowered as a result of deductions, credits, offsets and rebates.

Rationale for the BCA proposal

There are a number of arguments that can be offered to support the BCA proposal:

1. The first is that the proposal could be expected to redistribute tax concessions embodied in the current concessional regime more progressively. Those on lower incomes would enjoy a zero tax rate and those on higher incomes would face an increased rate of 22.5%. The proposed change links tax concessions more directly to the income of the contributor.
2. Secondly, the measure raises additional revenue which can be used to sustain social welfare expenditure.
3. Thirdly, the measure would encourage greater take-up of superannuation amongst lower income Australians and increase their superannuation savings. This would in term help to

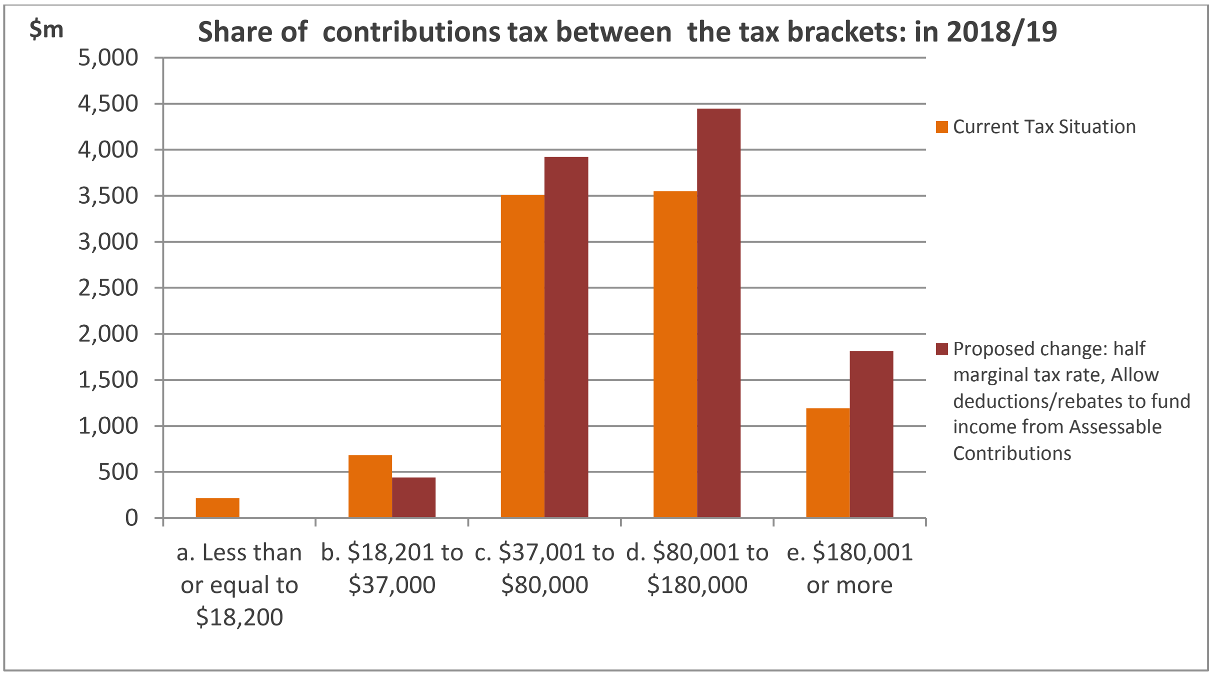
encourage greater self-provision for retirement from the lower income cohort with consequent reductions in the cost to the Government from the Age Pension over time.

Results of the modelling

$m	Current Tax Situation				BCA Proposal		
Year of Forward Estimates	2015/16	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
Increase in revenue					1,253	1,364	1,480
Total revenue superannuation tax: Budget Papers and forecasts	9,080	10,530	11,210	11,760	11,783	12,574	13,240
Contribution tax amount	8,043	8,409	8,775	9,142	9,662	10,140	10,621
Tax on other fund income	1,037	2,121	2,435	2,618	2,121	2,435	2,618
Share of contributions tax split into tax brackets							
a. Less than or equal to $18,200	198	204	209	215	0	0	0
b. $18,201 to $37,000	750	730	707	680	470	455	438
c. $37,001 to $80,000	3,238	3,332	3,422	3,509	3,724	3,825	3,922
d. $80,001 to $180,000	2,933	3,134	3,339	3,548	3,928	4,185	4,447
e. $180,001 or more	923	1,010	1,099	1,190	1,539	1,675	1,814

The modelling produces a revenue estimate for the proposed policy change and a distributional analysis is terms of the share of the superannuation tax burden across personal tax brackets. The potential taxation saving is significant ranging from $1.25bn to $1.5bn over the Forward Estimates period. The proposed change to the contributions tax is modelled from 1 July 2016.

The distributional impact of the proposed change is outlined for the last year of the Forward Estimates. The proposed change would eliminate contributions tax in the lowest tax bracket and reduce the burden of the contributions tax below income of $80,000 with the burden increasing for the highest tax bracket. The proposed change is strongly progressive.



The modelling indicates that there is scope to raise additional revenue and more fairly redistribute the tax concessions given to superannuation by linking the contributions tax liability to the individual's earning capacity. Current taxation arrangements tax all contributions at the same rate (within concessional limits) as the contributions are absorbed within the overall income of the superannuation fund. Current arrangements limit scope for the Government to limit tax concessions disproportionately enjoyed by higher income earners. The proposed change offers scope for the Government to more directly target concessions to lower income earners by linking the quantum of the tax concessions to the income of the contributor.

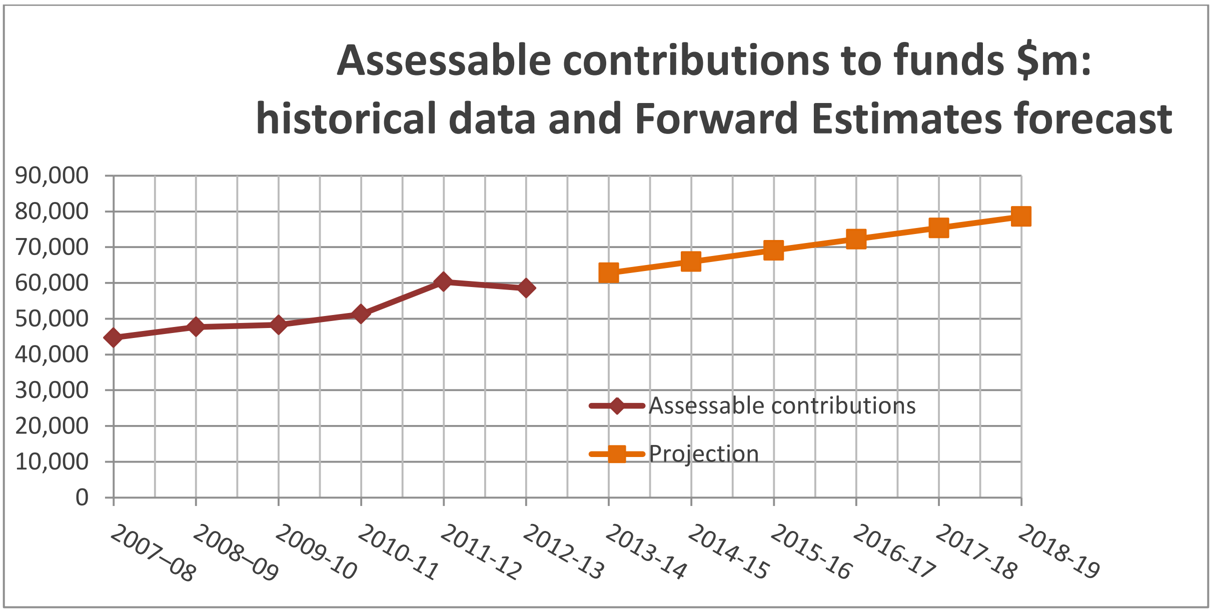
The proposed change does provide some administrative complexities and would require complex rules to be drafted to apply deductions, offsets, rebates and credits to the contribution income stream in the same proportion that they apply to fund income in general.

Specifications of the model

As noted above, concessional contributions are Assessable Income in the hands of the superannuation fund. Against this Assessable Income the fund can claim reductions for transfers of liabilities to life insurance entities for the purposes of life insurance, deductions against taxable income for expenses in earning fund income and tax rebates, offsets or credits for a variety of purposes including the bringing to account of tax losses from previous years. Personal superannuation contributions from after tax income for which a deduction is not to be claimed are not Assessable Income in the hands of the fund. While this is standard taxation practice compliant with current law, it complicates identification of the stream of contributions subject to the 15% contribution tax on Assessable

Contributions in fund income. In short, the modelling has to identify the taxable stream of contributions made to a fund and quarantine this income stream from other income of the fund.

The Taxation Statistics published by the Australian Taxation Office (ATO) provide sufficient granularity of data to make the modelling possible, with the constraint that the most recent data relates to the 2012/13 taxation year. The Taxation Statistics identify aggregate Assessable Contributions. Using historical tax data a projection of the stream of fund Assessable Contributions in aggregate has been calculated over the Forward Estimates using standard linear regression techniques. This income stream is presented in the graph below. It is noted that the impact of the increase in the Superannuation Guarantee from 9% to 9.5% in July 2015 has not been provided for in these calculations. This provides for a measure of conservatism in the estimates.



In order to identify the amount of Assessable Contributions that bear the contribution tax historical averages have been applied from the ATO Taxation Statistics. Noting that there have been definitional changes in the reporting of these statistics reliance has been placed on the income years of 2011/12 and 2012/13. The proportion of Assessable Income of a fund to Taxable Income is estimated at 126.81%. From these parameter estimates a notional component of taxable contributions and associated tax payable has been estimated on current taxation arrangements. Under current arrangements all contributors equally contribute to the tax burden. Concessional arrangements for lower income recipients are dealt with through arrangements in the personal taxation system and need not be considered in identification of this taxable stream of contributions in the hands of the superannuation fund. The taxation rate applied to this notional contributions stream is 14.76% prevalent in the Taxation Statistics.

In order to consider the impact of a proposed change in the taxation rate from the headline rate of 15% to half the marginal rate the level of taxable contributions in different personal income taxation brackets has to be determined. Historical breakdown of the share of Assessable Contributions is available in the Taxation Statistics. However, this data relates to the 2012/13 taxation year. The impact of bracket creep on these taxation scales has been measured, as it is significant, using wage growth data from Budget Paper No.1, Statement 2. The impact of bracket creep on the individual income tax scales has been taken as a proxy for bracket creep on the superannuation tax scales, as this is only mechanism available from the Taxation Statistics. The implied assumption that income growth from wage growth equates to growth in superannuation contributions is reasonable as the latter is the key parameter which drives the former.

With bracket creep considered the application of half the marginal tax rate in place of the 15% headline contributions tax rate can be modelled. It should be noted that the notional income stream of contributions tax applicable to the Assessable Contributions assumes that the proportion of these contributions to total taxable income of the funds remains the same. No behavioural response to the tax change is modelled. Moreover, measures would need to be taken to apply the average level of reductions in fund income from deductions, tax offsets, tax rebates, tax credits and application of prior year losses to this stream of contributions. This is not an easy process and would be administratively complex in terms of taxation law. However, the modelling presumes that this process is achieved.

Assumptions employed in modelling

Shares of superannuation contributors between the tax brackets measured in the 2012/13 Tax Statistics are adjusted using growth in earnings predicted by the Wage Price Index in Budget Paper No 1; Statement 2. This assumes that contribution growth evenly matches growth in wages across both the income/contribution distributions.

Assessable Contributions are part of the Assessable Income of a superannuation fund. Deductions can be claimed to reduce taxable income and rebates/credits are applied to reduce tax paid. In the model, fund taxable income is split between income attributed to contributions and other income by applying averages present in the Taxation Statistics 2012/13.

Assessable Contributions are assumed to increase over the Forward Estimates using a linear regression model based on available Taxation Statistics data.

The proposed change assumes income from Assessable Contributions will be quarantined from other fund income but would still be reduced by deductions before the tax rate of half the marginal tax rate is applied and are reduced by tax rebates, offsets or credits (at the same proportional rate as currently occurs).

Possible extension of the BCA proposal: review reductions to the superannuation contributions tax base

The modelling identified the high significance of deductions, rebates, credits and offsets to fund income. The reductions in the Assessable Contributions from allowable deductions, rebates, offsets and credits reduce the tax base of superannuation contributions by 25%. Were the Assessable Contributions to be taxed at the time they entered the fund at half the marginal tax rate without the application of reductions to this contribution stream from tax deductions, rebates, offsets and credits a very substantial increase in tax revenue from superannuation contributions could be expected. This modelling shows that there is potentially an addition to revenue of $4bn per annum from this measure with strong progressive impacts on the share of the contribution tax burden across income ranges. Given the size of the potential leakage from the tax contributions tax base from reductions in Assessable Contributions from tax deductions, offsets, rebates and credits it is open for the Government to consider whether such arrangements should be subject to review.