

Submission on the Taxation Discussion Paper

This submission deals with salary sacrifice used to make Superannuation Contributions and its replacement with a Superannuation Contribution Rebate limited to \$20,000 a year.

There are some taxation and other arrangements for low income earners which are ignored in this submission. These could be considered in the light of any changes made.

The current situation.

The table below summarises the benefits received by income earners who salary sacrifice to make pre-tax super contributions.

Income bracket	Marginal tax rate plus levies	Superannuation Tax rate	Net gain or (loss) As a percentage
0 – 18,200	0 cents	15%	(15%)
18,201 – 37,000	$19+2 = 21$ cents	15%	6%
37,001-80,000	$32.5+2 = 34.5$ cents	15%	19.5%
80,001-180,000	$37+2 = 39$ cents	15%	24%
180,001 plus	$45+2+2 = 49$ cents	15%	34%

The current system clearly favours higher income earners.

Put another way (ignoring the low income adjustments) when a person in the 21cent bracket puts \$1 into super via salary sacrifice the government provides a saving of 6 cents. To achieve an extra dollar of super cost 94 cents, the government providing 6 cents.

For a person in the 49 cent bracket the savings is 34 cents. For an extra dollar of super, it costs 66 cents, the government providing 34 cents.

Indeed, the effective rate of return of a salary sacrificed contribution of \$10,000 is summarised in the table below.

Income bracket	Marginal tax rate plus levies	\$10,000 contribution less 15% tax	Net cost = \$10,000 less tax benefit	Return on contribution: $\frac{\$8,500 - \text{net cost} \times 100}{\text{net cost}}$
18,201 – 37,000	$19+2 = 21$ cents	\$8,500	\$7,900	7.6%
37,001-80,000	$32.5+2 = 34.5$ cents	\$8,500	\$6,550	29.8%
80,001-180,000	$37+2 = 39$ cents	\$8,500	\$6,100	39.3%
180,001 plus	$45+2+2 = 49$ cents	\$8,500	\$5,100	66.7%

These rates of effective return highlight the inequity currently existing.

For a tax payer in the highest bracket, the rate of return is an immediate 66.7%

This would appear to be extreme and overgenerous.

Indeed, given the marginal benefit of an extra dollar is the higher for a low income earner than for a high income earner, the incentive benefits should be reversed, that is higher for the low income earner.

In addition, it is very costly to the government.

For example a person earning \$200,000 who salary sacrifices \$10,000 or \$20,000 the cost to government is effectively \$3,400 and \$6,800 respectively.

A new system

The salary sacrificing for super contributions is disallowed.

Every tax payer pays the full amount of income tax due.

Out of the after tax income, every income earner is able to make super contributions up to a limit of \$20,000.

This would be over and above any super guarantee levee. The super guarantee is an income related entitlement, and so should not be included in any super contribution cap.

The contribution is then taxed at the same 15% .

At the same time, a rebate of 30% is applied to the contributions made.

Ideally this would be done by the employer at the time the income payment is made.

Thus the overall impact is a net savings of 15% to the income earner regardless of their income.

For the government, the maximum savings provided is \$3,000.

This is **more equitable**, treating every dollar of contribution the same, regardless of the persons's tax bracket.

By choosing a single cap and ignoring the super guarantee levy it should be **simpler**.

For an employer, given the technology available, there should be little or **no extra complication or cost**.

For the government there should be **considerable savings**. The extent of this should be quantifiable with modelling by treasury.

Logic would suggest the impact would be greater (providing gains for the government) on high income earners who have the ability to salary sacrifice a lot, and less (providing losses for the government) on low income earners who would make lesser contributions.

The impact on the different income brackets is shown below assuming the contribution is \$10,000.

Income bracket	Net gain or (loss) As a percentage	Savings made	Gain under a 30% rebate	Gain or (loss) to government
0 – 18,200	(15%)	(\$1,500)	\$1,500	(\$3,000)**
18,201 – 37,000	6%	\$600	\$1,500	(\$900)*
37,001-80,000	19.5%	\$1,950	\$1,500	\$450
80,001-180,000	24%	\$2,400	\$1,500	\$900
180,001 plus	34%	\$3,400	\$1,500	\$1,900

** The expected level of contributions would be extremely low.

* It is expected the level of contributions would be low.

If the contributions were \$20,000, the effect on the upper 3 tax brackets would be as shown below.

Income bracket	Net gain or (loss) As a percentage	Savings made	Gain under a 30% rebate	Gain or (loss) to government
37,001-80,000	19.5%	\$3,900	\$3,000	\$900
80,001-180,000	24%	\$4,800	\$3,000	\$1,800
180,001 plus	34%	\$6,800	\$3,000	\$3,800

Potential Savings to government

This is a ‘back of the envelope’ estimate only.

The following is assumed.

- i. The average wage in Australia is \$80,000.
- ii. The workforce is 11 million.
- iii. One third of workers earn more than the average wage, and two thirds earn less.
- iv. Workers in the 39 cent tax bracket on average contribute \$10,000.
- v. Workers in the 49 cent tax bracket on average contribute \$15,000. Currently the \$35,000 limit means their super guarantee (at least \$16,200) will restrict extra contributions currently to below \$20,000.
- vi. The extra benefit to government for those in the 34.5cent bracket are cancelled out by the low rates of contribution and the extra benefits (and so losses for the government) for those in lower tax brackets.

Calculations:

One third of the workforce is 3,666,666 workers.

It is assumed 3,166,666 earn between \$80,001 and \$180,000. They contribute \$10,000 on average.

The remaining 500,000 (4.5% of the workforce) earn \$180,001 or more. They contribute \$15,000 on average.

The total savings to government is

$3,166,666 \times \$900 \text{ plus } 500,000 \times \$2,850 = \text{\$4.27billion.}$

Political considerations

These changes should be saleable.

For high income earners who 'lose out', the 15% gain is still significant.

For every \$10,000 contributed which reduces to \$8,500 after tax, has only 'cost' the income earner \$7,000 net.

The overall return is \$1,500 in \$7000 or 21.4%.

It is still a big incentive.

The additional benefit is future earnings being taxed at only 15% (before any impact of imputation credits).

Were there to be significant disincentive effects and so lower contributions, government savings would increase further.

For low income earners the gains are obvious. Consideration of current low income incentives may mean some tweeking.

The Labor Party and the Greens could hardly reject it.

For the government, there should be net revenue gains, making the system more sustainable.

Overall it is **fairer, simpler** and **better** for government.

The same arguments would apply to **deductable contributions** made to super.