

## **CHAPTER 7:**

# **THRESHOLD, PRESERVATION AND CONTRIBUTIONS TAX**

### **Introduction**

7.1 This chapter examines three regulatory provisions that can contribute to the small amounts problem. These provisions are:

- the \$450 threshold;
- access to amounts less than \$500;
- contributions tax.

### **The \$450 SG threshold**

7.2 This threshold is the point at which a liability arises for an employer to make a superannuation contribution on behalf an employee. The threshold for the SG legislation is \$450 per month, that is, once an employee earns \$450 in any given month an SG liability is incurred by the employer.

7.3 There was considerable debate on whether the SG threshold should be increased or decreased. There was also debate on whether the timing of the threshold calculations should be on a monthly, quarterly or annual basis. This debate arose not only in the context of the small amounts problem but also in relation to the inconsistency between the SG threshold and award thresholds.

7.4 Those in favour of raising the threshold argued that a higher threshold would reduce the small amounts problem and the administrative burden of deducting contributions for lower paid workers, especially itinerant workers.

7.5 The evidence against lowering the SG threshold, included:

- Mr Stevens, of William M. Mercer Pty Ltd, said that small payments could be reduced by raising the threshold and moving to annual payments. However, Mr Stevens went on to say that moving to an annual payment would allow a lower threshold. Mr Stevens also said that the requirement by

some awards to make superannuation payments from the first dollar earned was an impediment to reducing the small payments problem by raising the \$450 per month SG threshold.<sup>1</sup>

- The Government Employees Superannuation Board of WA (GES) recommended raising the limit to a level where employer contributions provide a 'meaningful benefit in terms of retirement income', suggesting \$10,000 per annum. GES also suggested that other forms of non-superannuation reward or savings should be considered to provide equity to employees earning below that limit.<sup>2</sup>
- Mr Donald Jasprizza, from Young, NSW, spoke of the administrative difficulties of applying SG to itinerant workers in the cherry industry. Mr Jasprizza supported either a move to a three month calculation period with a threshold of \$1,350.<sup>3</sup>
- The Australian Dried Fruits Association recommended that a move to a \$1,350 quarterly threshold would simplify the administrative work for employers because other government returns/assessments are completed on a quarterly basis.<sup>4</sup>
- The Northern Victoria Fruitgrowers' Association<sup>5</sup> and Riverland Horticultural Council<sup>6</sup> submitted in favour of a move to a \$1,350 quarterly threshold. The Riverland Horticultural Council added that a \$1,350 quarterly threshold would exempt about 70% of casuals employed in the horticultural industry. Mr Harley Swanbury, in representing the Riverland Horticultural Inc Industrial Relations Committee, echoed concerns about the administrative difficulties involved with applying the SG to itinerant fruit pickers. He, too, suggested the threshold be changed to \$1,350 per quarter.<sup>7</sup>

---

1 Evidence, pp 202-205

2 SGCREV Sub No 73

3 Evidence, p 563

4 SGCREV Sub No 45

5 SGCREV Sub No 58

6 SGCREV Sub No 47

7 Evidence, p 630

- Further still, Mrs Beryl George, Women in Agriculture, told the Committee:

it seems to me that the sensible solution would be to alter the threshold requirement from monthly to quarterly, which... would drastically reduce the administrative work for the employer who has to use itinerant labour and go some way to ensuring that those who qualify for super contributions will not lose all their entitlements to insurance companies.<sup>8</sup>
- Mr Kelvin Taylor, Sedgwick Noble Lowndes, spoke in support of a \$5,000 annual threshold.<sup>9</sup> With reference to low income earners, Mr Fitzpatrick, Sedgwick Noble Lowndes, expressed to the Committee the view that 'clearly the individual gets no benefit from the superannuation guarantee payment. By giving them cash in hand, though, at least they get something out of it'.<sup>10</sup> In tandem with this view, Mr Fitzpatrick suggested that the \$450 threshold be trebled.<sup>11</sup>
- Ms Eva Cox, Women's Economic Think Tank, told the Committee that:

if you drop the threshold, they [employers] will drop all workers who earn less than the tax threshold... if you are earning \$80 a week at the moment, it is \$80 a week, flat, out, paid, finished. If you are going to have to sit down then and calculate the superannuation entitlement on the \$80 a week and make those payments on all of those sums, you will just decrease the number of people you have earning small amounts.<sup>12</sup>
- Mr Richard Calver, of the Victorian Farmers Federation, advocated moving to a quarterly calculation with a corresponding threshold of \$1,350, or more.<sup>13</sup>
- Mr James Ferguson, of the National Farmers Federation, also favoured the move to a quarterly calculation because of the effect that administration costs have on small amounts.<sup>14</sup>

---

8 Evidence, p 670

9 Evidence, p 192

10 Evidence, p 190

11 Evidence, p 192

12 Evidence, p 74

13 Evidence, p 227

14 Evidence, p 406

- Mr Greg Hale, director of Osgate Pty Ltd, a farming company operating from Moree in NSW, suggested increasing the monthly threshold to \$900, or alternatively, increasing the calculation period to three months.<sup>15</sup>

7.6 On the other hand, those in favour of maintaining or lowering the current threshold essentially claim that, upon retirement, any superannuation benefit is better than none and that the measures proposed by the Treasurer allay concerns about additional small payments. Evidence supporting these claims included:

- Mr Jeffrey Carr, Australian Liquor Hospitality and Miscellaneous Workers Union, told the Committee that the \$250 a month threshold in the Hospitality Award must be sustained to ensure that workers of the Hospitality are not disadvantaged as they often work more than one job.<sup>16</sup>
- Whilst in favour of lowering the threshold, Mr Anthony Cooke, Trades and Labour Council of WA, acknowledged that the level of the threshold must be balanced with the economies that funds can achieve in dealing with small amounts. Mr Cooke articulated this to the Committee when he said:

obviously, \$450 is based on the economies as they exist at the moment in terms of charges and everything else; but we would like to see the day when the economies are achieved and that \$450 threshold can be lowered.<sup>17</sup>

- Mr David Vernon, Jacques Martin Industry, supports:

abolishing it [the threshold] altogether because the fact is there is a principle there,... it may only amount to several thousand dollars when they retire but the several thousand dollars may well buy them a fridge for their retirement and a few other things which will help their lifestyle... given the Treasurer's new framework for protection of small balances, your concerns about erosion of accounts are going to be taken care of.<sup>18</sup>

- Speaking of the need to provide support for casual employees, Mr John Davies, Mayne Nickless, told the Committee that:

it becomes too easy to avoid a superannuation obligation for those people. We are short-changing an increasingly large sector of the community. In

---

15 SGCREV Sub No 22

16 Evidence, p 250

17 Evidence, p 295

18 Evidence, p 146

principle, superannuation should be supported, providing it can be delivered administratively easily... I must confess I am speaking personally. I would be in favour of maintaining the current threshold.<sup>19</sup>

- The Government Superannuation Office (Queensland) believes there is no need for thresholds if the small amounts payments problems were solved. Moreover, a \$450 threshold creates inequity for those earning less than that amount.<sup>20</sup>
- The Australian Federation of Consumer Organizations (AFCO) submitted in favour of maintaining the threshold at its present level as:

low income groups, including casual and part-time employees, receive little or no benefit from superannuation... low income earners have a greater need up front to meet the day-to-day needs for food, clothing and housing.<sup>21</sup>

Representing AFCO, Ms Jenni Mack, expressed concern to the Committee that any raising of the threshold might actually result in the lowering of wages.<sup>22</sup>

- The ACTU has recommended the Government:

reduce the monthly minimum pay threshold from \$450 to \$200. The arguments from employers that it is too onerous to contribute these small amounts have been presented to the Industrial Relations Commission and rejected. Many awards apply \$200 as the threshold in respect of the 3% award super requirement.

When appearing before the Committee, Mr Ian Court, ACTU, said that the level of the threshold should be considered in the light of the advent of member protection. Mr Court stated that 'while we think that eventually it could be removed altogether, the logical next step would be to bring it to \$200'.<sup>23</sup>

---

19 Evidence, pp 157-158

20 SGCREV Sub No 65

21 SGCREV Sub No 20

22 Evidence, p 571

23 Evidence, p 693

The ACTU also submitted that reducing the threshold will remove the temptation for employers to dismiss casuals prior to them reaching \$450 in a month.<sup>24</sup>

- Treasury submitted that raising the threshold would clearly deny access to superannuation benefits to a significantly larger proportion of employees, but also opposed the reduction of the threshold because of the associated administration costs.<sup>25</sup>
- Ms Winsome Hall, Office of the Status of Women (OSW), told the Committee OSW was against lowering the threshold but said that they did not have a position on whether it should be raised.<sup>26</sup>

7.7 The Committee recognises that the lowering of the threshold would increase SG contributions and this should, in the long term, result in improved retirement income. The Committee does however recognise the argument that in the current superannuation environment the lowering of the threshold could exacerbate the small amounts problem and lead to further administrative demands.

7.8 Notwithstanding the evidence being weighted towards moving the threshold to a quarterly payment, the Committee was mindful of the effects such a move could have on compliance by small businesses. Small businesses would be required to anticipate the SG liabilities that would arise over the quarter rather than just over the month.

7.9 Although the Treasurer's Statement goes some way towards alleviating the small amounts problems to which the \$450 threshold has been said to contribute, it is not exhaustive. It is for this reason that the Committee is recommending that the threshold be essentially lowered **but** that the threshold calculation become a quarterly one.

7.10 This measure will enhance consistency between SG and award superannuation and will offset any additional administrative burden that may otherwise have been associated with lowering the SG threshold.

---

24 SGCREV Sub No 107

25 SGCREV Sub No 96

26 Evidence, p 520

7.11 The Committee has concluded that by lowering the SG threshold along with changing the timing of the threshold calculation to a quarterly basis:

- the administration burden of threshold calculations will be lessened;
- the confusion of employers will be lessened; and
- small income earners will receive more significant SG contributions.

7.12 This, linked with the Committee's recommendation that the first \$500 of contributions be exempt from contributions tax, discussed later in this chapter, will improve the retirement outcomes of small income earners.

**Recommendation 7.1:**

**The Committee recommends as the first element in its proposal to alleviate the small amounts problem that consideration be given to changing the SG threshold from \$450 per month to a quarterly amount of less than \$1350.**

**Preservation**

7.13 Under SIS, preservation rules essentially mean that members of a superannuation fund cannot access the money in their superannuation account. It is generally 'preserved' until they reach retirement. However if a person has a benefit of less than \$500 and leaves the service of an employer they may access that amount.

7.14 Submissions were made to the Committee on the consequences of allowing access to balances less than \$500. The superannuation industry and service providers advocate the removal of access to such balances. Representatives of welfare organisations opposed that proposal on the basis that low income earners have immediate financial needs.

7.15 Australian Council of Social Services (ACOSS) called for a continuation of access to preserved balances below \$500. ACOSS believes there is a 'need for low income earners to obtain earlier access to their superannuation savings'.<sup>27</sup> Mr David Vernon, Jacques Martin Industry, who strongly recommended the removal of access to amounts less than \$500, stated that 'there are still some

other avenues where people can take out even their preserved money'.<sup>28</sup> These other avenues include hardship applications which may be made to the Insurance and Superannuation Commission.

7.16 The Life Insurance Federation of Australia<sup>29</sup> and the Construction + Building Unions Superannuation (C+BUS)<sup>30</sup> submitted that the removal of the facility for members to withdraw preserved balances below \$500 would alleviate the small amounts problem. It would 'ultimately result in larger benefits for members', AMP submitted.<sup>31</sup> But both AMP and Mr Rosario, Westscheme, were of the view that the access could only be removed once mechanisms, such as the member protection rules announced in the Treasurer's statement, had been implemented to stop the erosion of small amounts.<sup>32</sup>

7.17 Mr Woodcock, Supercard Australia Pty Ltd, expressed concern that access to amounts less than \$500 should not be permitted 'simply because it leaves itself open to abuse',<sup>33</sup> for example where people have deliberately moved from job to job so they can receive payment before the \$500 limit is reached.

7.18 Mr Greg Smith, Treasury, informed the Committee that the Government has considered the issue of removing the threshold but has decided to leave the policy as it exists. Mr Smith stated that there were 'pluses and minuses'<sup>34</sup> to the argument, including equity and administration, and that all facets had been investigated. The only consideration that Treasury outlined to the Committee, however, was that the removal of the \$500 threshold would increase recourse to the hardship provisions, that enable access to preserved superannuation, which are expensive to administer.

7.19 Treasury's comments indicate a concern for those lower income workers who have immediate financial needs. In recommending the removal of access to the \$500 amount, the Committee acknowledges that the interests of the low income group must be addressed. It is for this reason that the Committee has

---

28 Evidence, p 146

29 SGCREV Sub No 67

30 SGCREV Sub No 95

31 SGCREV Sub No 75

32 Evidence, p 329

33 Evidence, p 20

34 Evidence, p 606



developed three interdependent recommendations including changes to the \$450 threshold that will increase the size of contributions and the removal of contributions tax on the first \$500.

7.20 Furthermore, the Committee recognises that low income earners have other life cycle savings needs. In Chapter 12, the Committee suggests a broader approach to savings to accommodate a life cycle savings vehicle for medium-term non-superannuation savings.

7.21 While taking into account the short term financial needs of low income earners and the small amounts problem the Committee believes that access to benefits is 'at odds' with the retirement income system operating in Australia as the early release of benefits may result in increased leakage from the system. Given the proposed introduction of measures outlined in the Treasurer's Statement, for example, the ATO collection mechanism and the member protection rules, the removal of access to \$500 amounts should, in fact, result in members being able to accumulate a more solid base on which to build retirement income.

**Recommendation 7.2:**

The Committee recommends the removal of access to preserved amounts of less than \$500 as the second element in its proposal to alleviate the small amounts problem.

**Contributions tax**

7.22 The current taxation system tolls superannuation at three points:

- on entry to the fund, a **contributions tax** of 15% is applied;
- whilst in the fund, an **earnings tax** of 15% is applied; and
- upon receipt of benefits, the **benefits tax** levels are 0%, 15% and 30% depending upon the tax that has been previously paid and the amount of the benefit.

7.23 Mr Greg Smith, of Treasury, outlined the history of the 15% contributions tax as resulting from the removal of the previous tax on final benefits. In addition, he stated:

The flat tax approach of 15 per cent in some measure is dictated by the administrative necessity of having a single tax rate imposed on the fund which has no knowledge whatsoever of the tax affairs of its members.<sup>35</sup>

7.24 Ms Eva Cox, Women's Economic Think Tank, believes the impact of the present tax on superannuation contributions for low income earners can be an effective increase in their overall tax rate as well as being another element that is deducted from an already small balance. Ms Cox stated that not only is superannuation not a good investment for many people, it is actually a disadvantage for them. 'The tax rate for people who earn below \$20,000 a year makes it no advantage at all.'<sup>36</sup> She submitted that the current system is beneficial to those individuals with high marginal tax rates, but is of no advantage to those whose marginal tax rate is nil.

7.25 In addressing the issue of an effective increased tax rate for low income earners, Ms Cox recommended that tax on contributions and earnings should be equal to an individual's marginal tax rate. In response to such an adjustment to the taxation of superannuation, Ms Hazel Bateman, University of NSW, School of Economics, suggested that 'trying to adjust the taxation of superannuation to take account of proportion taxation, as we do with wages, would even complicate matters further'.<sup>37</sup> Ms Bateman reminded the Committee that in questioning the equity of the current tax on superannuation system, consideration needs to be given to the fact that people on low incomes will gain more benefit from the aged pension than high income earners and that 'total retirement income' must be assessed.<sup>38</sup>

7.26 Mr Keith Wynn, of Cronulla, NSW, was of a similar view to Ms Cox. In recognising the effective increased tax rate for those earning under the income tax threshold, and the effect this has on small balances, he submitted that there should be a contributions tax free threshold for superannuation which is proportional to the income tax free threshold of \$5,400.<sup>39</sup>

7.27 The calculation of this contribution tax free threshold for the 1993/94 financial year would be:  $0.04 \times \$5,400 = \$216$ . This proposal would be based on annual income rather than a once only flat dollar rate.

---

35 Evidence, p 605

36 Evidence, p 55

37 Evidence, p 125

38 Evidence, p 125

39 SGCREV Sub No 33

7.28 While acknowledging that this proposal may 'dilute tax revenue to the government',<sup>40</sup> Mr Wynn believes this would be adequately compensated by a balanced flow of long term investment funds into the economy; a future increase in tax from larger balances in funds; and a reduced demand for the aged pension.

7.29 The ACTU made a similar proposal to that of Mr Wynn. It advocated that there should be a contributions tax free threshold. The ACTU's proposal is that the first \$500 of superannuation contributions be exempt for contributions tax. The Committee supports this as a once only exemption that is linked with the removal of access to the preserved amounts of less than \$500. The exemption could be administered as a rebate.<sup>41</sup>

7.30 ACOSS also supported a rebate for low income earners. It believes the current 'superannuation tax concessions give far too much assistance to high income earners and too little to low income earners'.<sup>42</sup>

7.31 The system proposed by ACOSS involves the:

- abolition of the current special tax concessions for contributions and fund earnings;
- assessment of contributions and fund earnings as part of the individual member's taxable income, with tax on the superannuation component paid by the fund;
- provision of a uniform tax rebate, which could be offset against taxes paid by the fund in respect of contributions and fund earnings for each member; and
- abolition or substantial reduction of taxes on benefits, except for lump sums above \$78,000 (indexed annually) and benefits withdrawn before age 60 (except in cases of hardship involving persons over 50 years old).<sup>43</sup>

7.32 ACOSS believes the rebate could be calculated on either an annual or lifetime base, as either a flat amount or a percentage of taxable contributions and earnings up to a maximum level.

---

40 SGCREV Sub No 33

41 SGCREV Sub No 107

42 SGCREV Sub No 86

43 SGCREV Sub No 86

7.33 In summary, ACOSS opined that 'reform of the tax concessions along the lines recommended above would eliminate any discrimination in the tax treatment of personal rather than employer contributions'.<sup>44</sup>

7.34 In relation to tax inequities, Treasury submitted that the only group to be disadvantaged by the current tax structure are those with incomes below the \$5,400 tax threshold. Mr Smith was of the opinion that designing a system which could recognise the income of workers in order to allocate rebates would be difficult because 'the tax is imposed on a fund, it is not imposed on the individuals'.<sup>45</sup>

7.35 Ms Nicola Cusworth, of the Chamber of Commerce and Industry of WA, expressed some concern about the introduction of any tax rebate on superannuation contributions. Ms Cusworth believes 'you would have a very intrusive administrative bureaucracy... That would be a lot more work for superannuation funds and a lot more intrusive work for superannuation funds'.<sup>46</sup>

7.36 The Committee acknowledges Ms Cusworth's remarks that the removal of contributions tax on the first \$500 may result in additional administrative workload for the superannuation funds. However, the Committee throughout the course of this review received no evidence from superannuation funds on this. The Committee is also unaware of any investigation the Government has undertaken on how a rebate could be implemented. It is therefore recommended that an assessment be made in order to identify the most effective and efficient means of implementing a tax free threshold.

7.37 As with Mr Wynn, the ACTU recognised that there would be a cost for this tax exemption. The ACTU estimated that the cost would be in the order of \$70 million.<sup>47</sup> This cost needs to be balanced against the facts that:

- as the measure is a tax exemption, the amount that would have been otherwise payable as tax remains in the member's account;
- the size of small accounts will not be diminished;

---

44 SGCREV Sub No 86

45 Evidence, p 604

46 Evidence, p 311

47 SGCREV Sub No 107

- in concert with the other measures, namely the removal of the \$500 preservation accessibility and the decreased threshold, small balances will aggregate into balances that will provide a more substantial retirement benefit;
- the Government is requiring funds to protect member balances and it may therefore be appropriate for it to also contribute in this manner; and
- the alleviation of the small amounts problem will provide an overall improvement in national savings.

7.38 The Committee considers these proposals to have great merit. Whilst acknowledging that there is little evidence of how such proposals to provide tax relief on small amounts could be implemented, the ACTU proposal would appear to be the least administratively complex. However, this needs to be assessed by the Government.

**Recommendation 7.3:**

The Committee recommends the removal of contributions tax for the first \$500 as the third element in its proposal to alleviate the small amounts problem.

The Committee is unaware of any investigation by the Government on the implementation and associated revenue implications of such a measure. The Committee further recommends that an assessment be made of the most effective and efficient means of implementing a tax free threshold.