Pensioner Guarantee

Labor is cracking down on a loophole that gives tax refunds to people who have a lot of wealth but don't pay any income tax.

This loophole will soon cost $8 billion a year – more than we spend on public schools, or child care. It's three times what we spend on the Australian Federal Police.

Most of these funds go straight into the pockets of a few very wealthy people who are already very comfortable. In fact, 80 per cent of the benefit accrues to the wealthiest 20 per cent of retirees.

Labor believes that scarce taxpayer dollars can be better spent on improving schools and cutting hospital waiting lists – so that's what we are doing.

Labor will close the loophole so that people who don't pay income tax don't get a tax refund – and spend the money on schools and hospitals instead.

Labor will introduce a new **Pensioner Guarantee** – protecting pensioners from Labor's changes to excess dividend imputation credits.

History of imputation policy

The dividend imputation system was introduced by the Hawke-Keating Government to ensure that the profits of companies operating in Australia are only taxed once for Australian investors. Under this system, imputation credits were attached to dividends, equal to the value of any company tax paid on the company's profits. These credits could then be used to reduce an individual's tax liabilities. If someone didn't have a tax liability, or if the tax liability was smaller than the imputation credits, the imputation credits went unused. No cash refunds were paid.

The Howard Government changed the dividend imputation laws to allow individuals and superannuation funds to claim cash refunds for any excess imputation credits that were not used to offset tax liabilities. That is, people paying no tax received a tax refund. The original purpose of dividend imputation was to reduce tax paid, but due to Howard's change, individuals – many wealthy individuals – are getting a cash bonus.

Australia is the only country with fully refundable imputation credits, and one of only a few OECD countries that has a dividend imputation system. Refundable tax credits are an anomaly in the Australian tax system, as most tax concessions in Australia are non-refundable tax offsets.

Who is benefiting from excess imputation loopholes?

The vast majority of working Australians do not receive cash refunds for excess imputation credits.

Analysis from the PBO shows that <u>92 per cent of taxpayers in Australia did not receive any cash refunds for excess imputation credits in their 2014-15 tax return.</u>

Recipients of cash refunds are typically wealthier retirees who aren't paying income tax. These are people who typically own their own home and also have other tax-free superannuation assets, and don't pay tax on their superannuation income.

Distributional analysis shows that:

- 80 per cent of the benefit accrues to the wealthiest 20 per cent of retirees;
- 90 per cent of all cash refunds to superannuation funds accrues to SMSFs (just 10 per cent go to APRA regulated funds) despite SMSFs accounting for less than 10 per cent of all superannuation members in Australia; and
- The top 1 per cent of SMSFs receive a cash refund of $83,000 (on average) – an amount greater than the average full time salary (based on 2014-15 ATO data).

Working Australians typically go to work and pay their PAYG taxes and if they own shares they use imputation credits to offset their personal income tax liabilities. That is, they use imputation credits to pay less tax, but don't receive a cash refund.

The Government has run a dishonest scare campaign on the impact of this policy –using 'taxable income' data to indicate that Labor's policy was targeting people on very low incomes.

The fact is, taxable income data excludes income from retirement phase superannuation and a lot of the income people receive in retirement is 'tax free' because it comes out of retirement phase super funds. As a result, some Australians have low taxable income but actually have a high disposable income or are relatively wealthy.

Example – low taxable income

A self-funded retiree couple has a $3.2 million super balance, plus their own home, and $200,000 in Australian shares held outside super. Even after drawing $130,000 a year in superannuation income, and $15,000 a year in dividend income, they would report a combined taxable income of $15,000, and pay no income tax at all. [1]

Analysis of Labor's original imputation reforms by Industry Super Australia shows that 80 per cent of the savings from Labor's reforms comes from the wealthiest 20 per cent of retirees.

Low wealth households typically don't benefit from the current taxation arrangements – they have little capacity to accumulate the wealth needed to do so. The recent ABS Household and Income Wealth report indicates that low wealth retiree households receive virtually all (96 per cent) of their income from government pensions and allowances.

Labor will always look after pensioners

Labor announced its dividend imputation reform to end tax loopholes that benefit wealthy Australians, freeing up taxpayer funds to invest in our schools and hospitals.

Forgoing $8 billion in tax revenue annually isn't sustainable, and it isn't fair. Ending this loophole is the right policy for the future.

Labor wants to responsibly invest in better schools and hospitals, and be able to provide tax relief for working and middle class Australians. These are our priorities.

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[1] *Grattan Institute*, https://grattan.edu.au/news/the-real-story-of-labors-dividend-imputation-reforms/

But we believe in a fair go for Australia – we know a lot of pensioners are struggling with the cost of living, especially with higher power prices and the Liberal Government's cuts to Medicare.

We've always said we'd look after pensioners, and that is why Labor is introducing a new **Pensioner Guarantee** – protecting pensioners from changes to excess dividend imputation credits.

Labor is making reasonable changes to ensure pensioners will still be able to access cash refunds from excess dividend imputation credits.

The Pensioner Guarantee means Australian government pensioners and allowance recipients will be protected from the abolition of cash refunds for excess dividend imputation credits when the policy commences in July 2019.

Under the Pensioner Guarantee:

- Every recipient of an Australian Government pension or allowance with <u>individual shareholdings</u> will still be able to benefit from cash refunds. This includes individuals receiving the Age Pension, Disability Support Pension, Carer Payment, Parenting Payment, Newstart and Sickness Allowance.
- Self-managed Superannuation Funds with at least one pensioner or allowance recipient *before* 28 March 2018 will be exempt from the changes.

These changes mean that <u>every pensioner will be able to benefit from cash refunds</u>.

That's the fair thing to do. There's no reason for Mr Turnbull to oppose this policy.

Labor's policy will also continue to exempt:

- ATO endorsed income tax exempt charities; and
- Not-for-profit institutions (e.g. universities) with deductible gift recipient (DGR) status.

The policy will commence on 1 July 2019.

Labor will always be better for pensioners

Labor will always be better for pensioners. The Liberal Government hasn't missed an opportunity to come after pensioner benefits.

Right now they have legislation in the Parliament to:

- Raise the pension age to 70 – meaning Australia would have the oldest age of comparable countries. In the first four years alone around 375,000 Australians will have to wait longer before they can access the pension. This is a $3.6 billion hit to the retirement income of Australians.

- Axe the Energy Supplement to 2 million Australians, including around 400,000 age pensioners – a cut of $14.10 per fortnight to single pensioners or $365 a year. Couple pensioners will be $21.20 a fortnight worse off or around $550 a year worse off.

- Make pensioners born overseas wait longer to get the Age Pension by increasing the residency requirements from 10 to 15 years.
- Abolish the pension supplement from pensioners who go overseas for more than six weeks, which will rip around $120 million from the pockets of pensioners.

The Liberal Government has a long track record of attacking pensioners:

- In the 2014 Budget they tried to cut pension indexation – a cut that would have meant pensioners would be forced to live on $80 a week less within ten years. This unfair cut would have ripped $23 billion from the pockets of pensioners in Australia.
- In the 2014 Budget they cut $1 billion from pensioner concessions – support designed to help pensioners with the cost of living.
- In the 2014 Budget they axed the $900 seniors supplement to self-funded retirees receiving the Commonwealth Seniors Health Card.
- In the 2014 Budget the Liberals tried to reset deeming rates thresholds – a cut that would have seen 500,000 part-pensioners made worse off.
- In 2015 the Liberals did a deal with the Greens to cut the pension to around 370,000 pensioners by as much as $12,000 a year by changing the pension assets test.
- In the 2016 Budget the Liberals tried to cut the pension to around 190,000 pensioners as part of a plan to limit overseas travel for pensioners to six weeks.

Implementation

Labor will consult with the Australian Taxation Office, Treasury and tax experts on the implementation of this policy. Labor has already announced it would provide substantial new resources to the ATO to ensure its policies are implemented effectively.

Fiscal impact

Labor's policy has been fully costed by the independent Parliamentary Budget Office.

Labor's policy will improve the budget position by $10.7 billion over the election forward estimates and $55.7 billion over the medium term. This is a $700 million decrease in revenue from the previously announced policy over the forward estimates, and $3.3 billion over the medium term.

	2018-19	2019-20	2020-21	2021-22	Total
Total financial impact (UCB)	-2	-1	5,200	5,500	10,697