ENDING CASH REFUNDS FOR EXCESS IMPUTATION CREDITS

- 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 change only affects people who are receiving cash tax refunds from the Government after paying no income tax.
- Under Labor's plan:
    - **No one will pay a single cent more tax**
    - **No one will lose a single cent from their super contributions**
    - **No one will lose a single cent from their pension**
    - **No one will lose a single cent from their share dividends.**
- **It is not retrospective.** It will apply from 1 July 2019.
- Everyone who gets share dividends can still use the system to reduce their tax bill. But they won't be able to get a tax refund if they've paid no income tax.
- **Exemptions:**
    - *see* Pensioner Guarantee below;
    - ATO endorsed income tax exempt charities; and
    - Not-for-profit institutions (e.g. universities) with deductible gift recipient (DGR) status.

WHAT ARE IMPUTATION CREDITS?

Hawke and Keating introduced imputation credits in 1987 to avoid tax being paid twice on company profits and dividends. These credits allowed shareholders to *reduce* their income tax when companies payed them dividends on their shares. If someone didn't have a tax liability, or if the tax liability was smaller than the imputation credits, the imputation credits went unused. This system did not allow *cash refunds* to be given to taxpayers once their liabilities had been eliminated.

WHAT IS THE PROBLEM?

When the budget was in surplus, Howard and Costello changed the rules to allow individuals and superannuation funds to claim cash refunds for any excess imputation credits.

Howard and Costello also made retirement phase superannuation assets tax free. Because a zero rate of tax applies to superannuation income in retirement, increasingly imputation credits are being claimed back as cash refunds.

When it was first introduced, it cost just $550 million a year. Now it's <u>$6 billion a year, and growing</u>.

Australia is the only country in the world that has this fully refundable dividend imputation system – no other country pays out cash refunds for excess imputation credits.

With an ageing population and a maturing superannuation system, the cost of allowing cash refunds for excess imputation credits will continue to grow. There is growing sentiment that Australia's current fully refundable dividend imputation system is fiscally unsustainable.

WHO IS BENEFITING FROM THE CURRENT ARRANGEMENT?

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

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).

WHAT WILL LABOR DO?

Labor will unwind the 2000 Howard Government decision that introduced cash refunds for excess imputation credits for individuals and superannuation funds.

This means that imputation credits for individuals and superannuation funds will no longer be a refundable tax offset, and will return to being a non-refundable tax offset consistent with the tax treatment of most other tax offsets. Cash refunds will not arise if excess imputation credits exceed tax liabilities.

Labor's policy will only apply to individuals and superannuation funds, and therefore will not apply to bodies such as:

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

Labor has also announced that we will protect pensioners from the proposed changes to dividend imputation.

LOOKING AFTER PENSIONERS

Labor believes in a fair go for Australians – we know a lot of pensioners are struggling with the cost of living and that a small proportion of pensioners rely on modest cash refunds on excess imputation credits.

We've always said we'd look after pensioners, and that is why Labor's Pensioner Guarantee will protect pensioners from our proposed changes to dividend imputation.

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 individual shareholdings 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 recipient of an Australian Government pension or allowance as at 28 March 2018 will be exempt from the changes.

These changes mean that every pensioner will be able to benefit from cash refunds. That's the fair thing to do. There's no reason for Mr Turnbull to oppose this policy.

The policy will commence on 1 July 2019.

Labor will always be better for pensioners

The Liberal Government hasn't missed an opportunity to come after pensioner benefits.

They continue to support policies 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.

REBUTTAL TO GOVERNMENT'S CLAIMS

The Government has run a dishonest scare campaign on the impact of this policy –using 'taxable income' data to suggest 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 high disposable income or are relatively wealthy.

Independent experts have rubbished the government's claim:

- The Grattan Institute states "The government's claims that 54 per cent of people affected by Labor's policy - some 610,000 individuals - have taxable incomes of less than $18,200 <u>**are deeply misleading**</u>" because taxable ignores the largest source of income for many wealthier retirees: tax-free superannuation.
- Saul Eslake has pointed out taxable income "excludes income that you get if you are over 60 from your superannuation fund because that income but it's not taxable income"
- Michael Croker from the Chartered Accountants A-NZ said last week in the Australian Financial Review "<u>**Taxable income does not indicate a person's means**</u>…A person could be wealthy in terms of assets held... or be receiving income that is not assessable, such as a payout from a superannuation fund after age 60.''

- Analysis from Industry Super Australia shows that **<u>80% of all refunds to peopled aged over 65 go to the wealthiest 20% of retirees.</u>**

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. .

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