LABOR PARTY RESPONSE TO THE FEDERAL PRE-ELECTION SUBMISSION FROM AIR

Recommendation 1

That the 50 per cent mandatory draw down requirement for Account Based Pension, Allocated Annuities and Market Linked (term allocated) Annuities be reinstated for 2010-11

The Gillard Labor Government announced on 30 June 2010 an extension to the drawdown relief for account-based superannuation pensions to the 2010-11 year to support self-funded retirees.

Extending the drawdown relief for a further year will help retirees to recoup capital losses on their pension portfolios as equity markets recover over time.

The drawdown relief will be in the form of a 50 per cent reduction in the minimum payment amounts for account-based, allocated and market linked pensions.

Recommendation 2

That, for retirees over the age of 65, capital gains arising from the sale of capital assets held outside superannuation not be included in taxable income calculations until the retiree's taxable income exceeds the tax threshold for the 2010-11 37 per cent marginal tax rate of $80,000.

Federal Labor does not support capital gains tax exemptions for assets held outside of superannuation for people under 65 with incomes of less than $80,000. Providing such an exemption would add complexity to the tax system and undermine the capital gains tax regime which is an important part of ensuring a broad based and equitable tax system. It is appropriate that income from all sources – whether from income or capital gains be taxed to ensure everyone pays their fair share of tax.

Providing a capital gains tax exemption for retirees over the age of 65 with incomes less than $180,000 would provide an undue advantage to retirees who earn income from the sale of assets over retirees who earn income from rent, dividends and interest.

Most capital gains already receive concessional treatment compared with other income.

The capital gains tax discount means that individuals pay tax on only half of any capital gain that they make on assets owned for at least 12 months. This ensures that the maximum rate of tax on these assets is only 23.25 per cent, including the Medicare levy.

Providing this capital gains tax exemption for retirees could also distort investment decisions.

However, Federal Labor provides significant tax concessions for self funded retirees and plans to introduce more tax relief if a Gillard Labor Government is re-elected.

Targeted assistance is provided through the tax system to those people who have saved over their working lives, including outside of superannuation, to fund their retirement.

Senior Australians of Age Pension age may qualify for the senior Australians tax offset. When combined with the low income tax offset, the senior Australians tax offset ensures that, an eligible senior Australian who is a member of a couple can earn up to $25,680 in 2009-10 without paying income tax or the Medicare levy. This threshold increased to $26,680 in 2010-11.

Self-funded retirees have also benefited from the Government's tax plan. As part of this plan, the 30 per cent marginal tax rate threshold was increased from $30,001 in 2007-08 to $34,001 on 1 July 2008, to $35,001 on 1 July 2009 and to $37,001 on 1 July 2010. This change benefits those with incomes in excess of $30,000.

The Mature Age Worker Tax Offset provides a maximum annual offset of $500 for taxpayers who choose to remain in the workforce at or over the age of 55. Eligibility for the offset is based solely on income from working, so that mature age Australians with income from working but who also derive significant income from passive sources, such as superannuation and shares, can still benefit from the offset.

In addition, the 40 per cent tax rate was reduced to 38 per cent from 1 July 2009, and was further reduced to 37 per cent from 1 July 2010, benefiting taxpayers with incomes over $80,001.

The Government has also increased the low income tax offset from $750 in 2007 - 08 to $1,200 on 1 July 2008. It was further increased to $1,350 on 1 July 2009, and to $1,500 on 1 July 2010.

In addition, the Gillard Labor Government has announced plans to provide a 50 per cent tax discount on up to $1,000 of interest earned by individuals, including interest earned on deposits held in banks, building societies and credit unions, as well as bonds, debentures or annuity products from 1 July 2011. It is estimated that around 740,000 self-funded retirees and age pensioners will benefit from this measure.

Recommendation 3

That together with recommendation 2, a specific taxation provision be established to allow self-funded retirees to average their tax commitment over a five year period, when their income is derived from earnings and investments.

Federal Labor does not propose to extend income averaging to self funded retirees. While equity markets have recovered to an extent over the past year, they remain well below the levels reached prior to the onset of the Global Financial Crisis.

Federal Labor's drawdown relief, tax cuts and economic stimulus payments of $1,400 or $2,100 for couples combined, paid in December 2008, were aimed at assisting self funded retirees in recognition of capital losses due to impacts of the Global Financial Crisis.

Recommendation 4

That the Government provide sufficient funding for aged care to ensure that all Australians have ready access to affordable , client directed, appropriate care and accommodation when it is required.

The Gillard Labor Government has committed to additional funding for aged care services in it's second term..

Federal Labor has announced we will introduce consumer directed community and respite care packages that will allow care recipients and their carers to have a greater say in how their care is delivered.

Federal Labor has increased funding for aged and community care by some 30 per cent and has created more than 10,000 new aged care places.

We are also undertaking major reform by taking full policy and funding responsibility for aged care to build a nationally consistent system covering basic care at home through to high level residential care.

A re-elected Gillard Labor Government will invest more than $900 million over the next four years, to build a national system that will allow older Australians to move seamlessly from one level of care to another as their care needs change. This national system will be supported by:

- Improved access to services through the establishment of one-stop shops for aged care information and assessment.
- A more highly skilled aged care workforce.
- More aged care beds and places.
- Improved access to GP and primary health care services.
- Stronger protections for older Australians receiving care.

We are delivering on the commitment to expand transition and sub-acute care places to help older Australians recover from a hospital stay and return to their own homes and communities.

A re-elected Gillard Labor Government will continue driving reform in this important area.

Recommendation 5

That the federal Government undertakes an audit of the investigation and assessment processes affecting aged Australians in the fields of social welfare and aged care, with a view to eliminating redundant and unnecessary processes.

The Gillard Labor Government is building a national aged care system that will allow for seamless transition of care for older Australians, allowing them to move from basic care at home through to nursing home care as their care needs change.

The Government has already taken the first steps to reform by taking full policy and funding responsibility for aged care. This will allow the Government to build the foundation of a new system. However, there is more to be done to ensure that the aged care system is equipped to meet the challenges of the future.

The Gillard Labor Government recognises that there is more to do to improve aged care services to meet the increased demands of our ageing population.

To set out the path to further reform, we have asked the Productivity Commission to undertake the most comprehensive review of our aged care system in decades.

Recommendation 6

That the Medicare and Pharmaceutical benefits Scheme (PBS) Safety Net thresholds for single retirees be reduced so that access to the Safety Nets become available to single retirees at 60 per cent of the thresholds for couples/families.

A number of self-funded retirees are eligible for the Commonwealth Seniors Health Card which provides access to Pharmaceutical Benefits Scheme prescription items at a cheaper rate and a lower Extended Medicare Safety Net threshold.

The purpose of the PBS is to provide reliable, timely and affordable access to a wide range of medicines for all Australians.

The cost of the PBS represents a large portion of the health budget, and is expected to cost the Australian Government over $9 billion in the 2010-2011 financial year. The Government currently subsidises over 3,600 medicines through the PBS, one of the most accessible and affordable medicine subsidy schemes in the world.

The PBS co-payment and safety net provisions help to ensure that the costs of subsidised medicines are affordable for Australians. Many of the medicines subsidised by the Scheme cost a great deal more than the co-payment amount.

The PBS safety net provides further assistance to those Australians who, for reason of severe, complex or chronic illness, require a very large number of PBS prescriptions over a calendar year. There is no expectation that all patients will reach the safety net, as not everyone requires a substantial number of PBS prescriptions to treat their medical conditions. In 2010, the safety net threshold for general patients is $1,281.30, while for concession card holders it is $324.00.

While it is true that the safety net threshold is set at the same level (general or concessional) for a single person, couple or family, it is also true that the individual needs to pay for medicines for one person, whereas a couple must meet the cost of medicines for both.

Recommendation 7

That the upper income eligibility thresholds for the Commonwealth Seniors health Card (CSHC) be indexed annually immediately in the same method used for indexing the Age Pension.

The Commonwealth Seniors Health Card was introduced by the previous Federal Labor Government in 1993 to assist senior Australians of age pension age who are not in receipt of the age pension or another income support payment with the cost of living.

It was the former Coalition Government in 1999 that abolished indexation to the income cut-off limits, and removed the link to pension income limits.

The current Commonwealth Seniors Health Care Card income thresholds of $50,000 for singles and $80,000 for couples combined, are still higher than they would have been had they remained linked to the pension income cut-off limits. From 20 March 2010, these limits are $40,149.20 for singles and $61,412.00 for couples, combined.

Federal Labor will continue to closely monitor the effect of increased prices for senior Australians and is providing a range of other targeted assistance through the tax system for self-funded retirees.

Recommendation 8

That there be consistency with the indexing formula used for any pension payments and that Commonwealth Superannuation and Defence Pensions now be indexed using the same indexing formula as is used to adjust the Age pension.

1. As promised in the 2007 election, Federal Labor commissioned an independent review by an eminent Australia actuary Mr Trevor Matthews which found no argument to support the different indexation treatment of military and civilian superannuation pensions.

2. Federal Labor has asked the Department of Finance to work with Australian Bureau of Statistics on the feasibility of developing a suitable new index that better reflects the cost of living for Commonwealth superannuation.

3. Federal Labor committed in 2007 to make public the Podger Review into military superannuation that the Coalition had refused to release. We have done that.

4. We also committed in 2007 to an independent review of the indexation methodology applied to Commonwealth superannuation pensions. We have done that. The Matthews Review concluded that CPI continued to be the best available index for Commonwealth superannuation pensions.

Recommendation 9

That those retirees who are eligible to contribute into a superannuation fund be allowed to contribute up to the prescribed limit without having to meet the work test.

The total value of tax concessions for superannuation savings is estimated to be around $22.7 billion in 2009-10. Given the expense of these concessions, it is important that they are appropriately targeted.

The application of the work test or people aged between 65 and 74 attempts to strike a balance between responsible fiscal policy and maximising opportunities for people to accumulate superannuation savings over their working life to be used for retirement.

It is important to see the rules which apply to superannuation contributions in this context.

However, a re-elected Gillard Labor Government will increase the superannuation guarantee rate from 9 to 12 per cent. We will maintain a $50,000 contribution cap for over 50s with super balances up to $500,000. The Coalition's policy is to cut the cap from $50,000 to $25,000 for all over 50s on 1 July 2012. We will also extend the superannuation guarantee to workers aged between 70 and 74. These measures will directly address issues raised by our ageing population, boost savings, and bring broader benefits to all Australians.

Recommendation 10

That for retirees 65 and older who have never had a superannuation account, an account based pension or an annuity, a special arrangement be set up to allow assets used for income generation in retirement to be sold and transferred into a new (special case) complying superannuation account based pension or used to purchase a complying Annuity within the same taxation year.

AIR recommends an incentive for retirees to do this with the capital gains tax obligation on this asset sale being waived on the first $80,000 of the tax that would have been payable from this sale.

AIR further recommends that the transfer should be limited to a sum of up to $1 million in one year or a total of $1.5 million over a three year period.

On 2 May 2010, Federal Labor announced that individuals aged 50 and over with total superannuation balances below $500,000 will from 1 July 2012 be allowed to double the amount of concessional superannuation contributions to $50,000.

This expansion of the contribution caps will ensure that Australians with modest superannuation savings can top up their savings at a point in their lives when they are able to save more.

We will maintain a $50,000 contribution cap for over 50s with super balances up to $50,000. The Gillard Labor Government is continuing to consult with the superannuation industry through the implementing of this important measure.

Further, the tax law currently provides CGT concessions for assets sold to fund small business owner's retirement. The small business retirement exemption allows a small business to disregard a capital gain arising from a CGT asset if certain conditions are satisfied. The Gillard Labor Government will not make any changes to these arrangements.

Recommendation 11

That the components of the retiree's income that are derived from untaxed superannuation schemes and from non-superannuation outside sources be assessed separately for taxation purposes as is the case with a retiree who derives an income from a taxed superannuation scheme.

1. Federal Labor provides important tax concessions for self-funded retirees. While superannuation benefits received from untaxed superannuation funds are subject to tax, members aged 60 or over benefit from a reduced level of taxation primarily through the 10 per cent tax offset on the taxable part of their pension income.

2. Significantly more complexity would be required if any additional concessionality was to be provided to untaxed scheme members and appropriately targeted.

Recommendation 12

That provision be made in the Taxation Act to permit income sharing between retired partners where one member is in receipt of an approved superannuation income and either the other is without any structured superannuation income or has a small structured superannuation scheme.

Federal Labor does not propose to allow splitting to reduce couples tax liability.

The Government allows partners to make contributions to each other's accounts and provides a co-contribution for low income spouses.