National Foundation for Australian Women

REAL WOMEN. VISIONARY LEADERSHIP

GENDER LENS ON THE OCTOBER 2022-23 BUDGET

Key Policy in discussion	**TAXATION and SUPERANNUATION**
Portfolio and or agency	**Treasury and Australian Taxation Office**
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Key Portfolio Issues

In this budget the Government has stepped back from engaging in debate over ensuring that the tax system generates sufficient revenue to fund operations and services. Revenue gains are from changes in the economic parameters, particularly inflation which is increasing corporate and personal tax receipts.

The stage three tax cuts, which are not affordable, favour high income earners and are not gender equitable, have not been reconsidered and there are no measures to increase resource taxes or wealth taxes, including the capital gains tax discount. There are no changes to make superannuation more equitable.

We need tax reform to target spending on wellbeing objectives. Household wealth and income objectives disguise the gendered effect of the taxation system on dual income households, contributing to the gender gap in hours worked.

Budget Measures

The Budget forecasts an increase in taxation revenue of $54.4 billion in 2022–23 and $142.0 billion over the 4 years to 2025–26. Over 90 per cent of the revision relates to personal income tax and corporate income tax receipts. Corporate profits will increase due to high commodity prices, and personal income tax receipts will rise as more people are in employment.

	Estimates				
	2022-23	2023-24	2024-25	2025-26	Total(b)
	$m	$m	$m	$m	$m
Receipts at 2022-23 March Budget	**547,632**	**585,208**	**615,237**	**643,900**	**2,391,977**
Changes from 2022-23 March Budget to 2022 PEFO					
Effect of policy decisions	815	-120	-155	-155	385
Effect of parameter and other variations	86	101	102	155	445
Total variations	**901**	**-19**	**-53**	**0**	**830**
Receipts at 2022 PEFO	**548,533**	**585,189**	**615,184**	**643,900**	**2,392,806**
Changes from 2022 PEFO to 2022-23 October Budget					
Effect of policy decisions	1,410	2,458	3,967	5,253	13,088
Effect of parameter and other variations	57,286	33,793	23,689	29,870	144,638
Total variations	**58,696**	**36,252**	**27,656**	**35,123**	**157,727**
Receipts at 2022-23 October Budget	**607,229**	**621,441**	**642,840**	**679,023**	**2,550,533**

Source: Budget Paper No 1, Table 5.2: Reconciliation of Australian Government general government receipts estimates from PEFO and the 2022–23 March Budget, p 151

In addition to high rates of employment generally, specific programs established following the **Jobs and Skills Summit** include:

	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Jobs and Skills Summit – incentivise pensioners into the workforce(b)	-	-	15.0	-	-
Migration Program – 2022-23 planning levels(b)	-	20.0	195.0	260.0	280.0

Source: Budget Paper No 2, Table 1: Receipt measures since the 2022 PEFO, p. 4

The extension to **paid parental leave** will generate taxation revenue that will partially offset the cost of the initiative as parents maintain participation in the paid workforce:

Payments ($m)

	2021-22	2022-23	2023-24	2024-25	2025-26
Services Australia	-	4.7	6.5	3.5	2.1
Department of Social Services	-	-42.6	-35.0	258.7	573.7
Total – Payments	-	-37.9	-28.6	262.2	575.8
Related receipts ($m)					
Australian Taxation Office	-	*-15.0*	*-10.0*	*80.0*	*185.0*

Source: Budget Paper No 2, p.177

The Government will exempt battery, hydrogen fuel cell and plug in **hybrid electric cars** first used after 1 July 2022 from import tariffs and fringe benefit tax if they cost less than the luxury car limit, currently $84,916 for fuel efficient vehicles. This meets an election commitment.

Receipts ($m)

	2021-22	2022-23	2023-24	2024-25	2025-26
Department of Home Affairs	-	-20.0	-25.0	-40.0	-55.0
Australian Taxation Office	-	-25.0	-50.0	-75.0	-120.0
Total – Receipts	-	-45.0	-75.0	-115.0	-175.0
Related payments ($m)					
Department of the Treasury	-	*-5.0*	*-10.0*	*-20.0*	*-30.0*

Source: Budget Paper No 2, p. 17

Australians for Indigenous Constitutional Recognition will be listed as **a deductible gift recipient** (DGR) for donations made from 1 July 2022 to 30 June 2025, and the listing for Australian Women Donors Network will be extended for 5 years, to 8 March 2028.

- *Measures Not Proceeding*

This budget has reviewed a number of measures proposed in previous budgets that have not been passed. These measures include changes proposed to a number of corporate measures relating to financial arrangements.

Other measures that will not proceed include:

- The 2018–19 Budget measure that proposed introducing a limit of $10,000 for cash payments made to businesses for goods and services (a delayed start date was announced in 2018–19 MYEFO).
- The 2021–22 MYEFO measure that proposed establishing a deductible gift recipient category for providers of pastoral care and analogous wellbeing services (chaplaincy) in schools.
- The measure allowing taxpayers to self-assess the effective life of intangible depreciating assets, announced in the 2021–22 Budget.

Measures announced in the 2019-20 MYEFO to establish a reporting regime in the sharing economy will be deferred to allow time for the proposal to be implemented.

- *Tax Compliance Measures*

Other tax measures are primarily tax compliance programs, including programs targeting multinational corporations:

	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Extend ATO Compliance Programs – Personal Income Taxation Compliance Program(b)	-	-	151.2	287.2	236.0
Extend ATO Compliance Programs – Shadow Economy Program(b)	-	-	403.7	714.5	940.7
Extend ATO Compliance Programs – Tax Avoidance Taskforce(b)	-	277.0	535.4	729.0	1,308.5
Improving the integrity of off-market share buy-backs	-	..	150.0	200.0	200.0
Multinational Tax Integrity Package – amending Australia's interest limitation (thin capitalisation) rules(b)	-	-	-	370.0	350.0
Multinational Tax Integrity Package – denying deductions for payments relating to intangibles held in low or no tax jurisdictions(b)	-	-	40.0	110.0	100.0
Multinational Tax Integrity Package – improved tax transparency(b)	-	*	*	*	*

Source: Budget Paper No 2, Table 1: Receipt measures since the 2022 PEFO, p. 4

There are a number of measures that will affect superannuation.

- The Downsizer Contribution will be extended to allow people aged over 55 to contribute up to $300,000 from the sale of their main residence to superannuation. This is also available to their spouse whether the home is held in joint names or not. This measure was first introduced for people over age 65 from 1 July 2018 and reduced to age 60 from 1 July 2022.

- The start date of the measure to relax residency requirements for SMSFs will be deferred from 1 July 2022 to the income year commencing on or after the date of Royal Assent.
- The Government has abandoned the 2018–19 Budget measures to change the audit requirement for certain self-managed superannuation funds (SMSFs) from annual to once every three years and the requirement for retirement income product providers to report standardised metrics in product disclosure statements.

Policy issues and indicators

The Government has not taken any substantive steps to tax reform. The increase in taxation revenue is a consequence of inflation increasing corporate income tax and individual wage growth. There are no moves in this budget to review the tax mix, particularly targeting the resources industry that is benefitting from the current economic climate.

The budget is based on the stage 3 tax cuts continuing as legislated. When this was first proposed in the 2018-19 Budget, the NFAW Gender Lens (NFAW, 2018) identified the less progressive structure of the tax package as gendered, with the highest benefits going to high income taxpayers who are predominantly men. Our analysis also questioned the need to legislate tax cuts into the future as economic circumstances change.

Our early analysis of the effect of Stage 3 of the tax package has been confirmed by the Parliamentary Budget Office using current data (PBO, 2022). The analysis found that over the period of the modelling (2032-33) men will receive double the benefit that women would receive.

We also note that the Low Middle Income Tax Offset that was introduced in the early stages of this package and extended during COVID has ceased. The effect of this will be felt when people formerly eligible for this offset lodge their income tax returns following the end of the 2022 income tax year. We were critical of the use of a tapered tax offset to deliver tax relief, however the end of the LMITO will cancel out the benefits of the Stage 3 tax cuts for taxpayers earning less than $96,000 pa, which will disproportionately affect women (Australia Institute, 2022).

During the period of low wage growth that the Australian economy has been experiencing, bracket creep is not a significant impost on individuals. However, with inflation and wage increases comes the challenge of bracket creep, and as noted above, increased tax collections in the October 22 Budget are partly due to bracket creep on personal taxes.

The stage 3 tax cuts should not proceed in their current form. Personal tax relief should be targeted to low- and middle-income tax levels. The current 37 per cent tax rate should not be abolished, with the current $120,000 threshold being increased based on CPI indexation.

There are also no significant steps to address the reform of the retirement income system. Concessions on superannuation taxes are the third and fourth most significant tax expenditures, ranking behind the tax exemption from capital gains tax on the main residence:

Tax expenditures		Estimate $m			
		2022–23	2023–24	2024–25	2025–26
Large tax expenditures					
E8	Main residence exemption – discount component	33,500	35,000	34,500	35,500
E7	Main residence exemption	29,000	30,000	29,500	31,000
C4	Concessional taxation of superannuation entity earnings	26,350	20,000	19,900	21,050
C2	Concessional taxation of employer superannuation contributions	21,800	23,400	21,450	22,250

Source: Budget Paper No 1 Table A.1: Estimates of large measured tax expenditures

Note that the tax concession on superannuation fund earnings is more than on contributions. Fund earnings are taxed at 15 per cent, or 0 per cent if the fund is in retirement phase, compared to the individual's personal marginal tax rate if the member were to hold those funds in another investment.

This is an important investment to save, however there are a relatively small number of accounts with very high balances. ASFA has proposed that a higher rate of tax should be payable on the earnings where a member's balance is more than $5m (ASFA, 2022).

We also note that the amount withdrawn from superannuation by a retiree is exempt from tax in the hand of the recipient. Retirement phase accounts are limited to $1.7m, with a required minimum annual pension. A person aged 65 with a $1.7m account will be drawing $85,000 pa tax free (disregarding the temporary reduction in the drawdown rate). It is time to review the equity between a person on an aged pension who pays tax on additional earnings and a person drawing a superannuation income stream.

Although the increase in paid parental leave is welcomed, pending the final design of use-it-or-lose-it measures, there is still no provision for paid parental leave on the Government scheme. It is also not required in respect of leave paid by the employer, although many employers do maintain superannuation during paid parental leave. This must be addressed, and paid parental leave must be specifically included as ordinary time earnings in the superannuation guarantee legislation.

The extension of downsizer contributions to younger cohorts was intended to free up housing resources and to allow people to convert housing wealth into a retirement asset. Early data showed that in 2019 downsizer contributions were made by more women (55 per cent) than men (45 per cent).

Gender implications

The effects of the tax and superannuation system on gender equity are indirect: they operate through the fact that women earn less, have a lower lifetime income and accumulate less wealth. Taxation systems that benefit high income earners, and superannuation systems that are based on a proportion of earnings, require Governments to consider distributional effects through a gender lens.
Conversely, women are more likely to rely on services that are funded by Governments. An example of this is investment in early childhood education and care; and the new money committed in this area is welcomed. These services are funded by a strong and efficient tax system.

Proceeding with the stage three tax cuts fails on both counts. Women are not direct beneficiaries of the cuts, and the lack of funding for services will also be felt disproportionately by women.

It is time that the Government implements a program of tax reform that will achieve distributional fairness. Particular attention must be paid to ensuring a progressive income tax structure; considering wealth taxes, including the existing capital gains tax discount on the sale of assets; and the level of tax concessions accessed by those with the means to accumulate wealth inside superannuation.

Recommendations

The Government should implement tax reform that will achieve distributional fairness. Particular attention must be paid to ensuring a progressive income tax structure; considering wealth taxes, including the existing capital gains tax discount on the sale of assets; and the level of tax concessions accessed by those with the means to accumulate wealth inside superannuation.

The stage 3 tax cuts should be abandoned in their current form. Personal tax relief should be targeted to low- and middle-income tax levels. The current 37 per cent tax rate should not be abolished, with the $120,000 threshold being increased based on CPI indexation.

Superannuation should be payable on Commonwealth Parental Pay. The *Superannuation Guarantee Administration Act* should also be amended to include parental leave as ordinary time earnings.

The taxation of superannuation funds not in retirement phase should be on a progressive scale, based on the member's total superannuation balance.