Submission Number: 151
Date Received 13/08/09

TREASURER

PO BOX 6022
PARLIAMENT HOUSE
CANBERRA ACT 2600

Telephone: 02 6277 7340
Facsimile: 02 6273 3420

www.treasurer.gov.au

Ms Sharryn Jackson MP
Chair
Standing Committee on Employment and Workplace Relations
PO Box 6021
Parliament House
CANBERRA ACT 2600

13 AUG 2009

Dear ~~Ms Jackson~~ Sharryn

Thank you for your letter of 3 June 2009, concerning the current inquiry into pay equity and associated issues related to increasing female participation in the workforce, by the Standing Committee on Employment and Workplace Relations.

In your letter, you sought specific information, as outlined in your questions, in respect of Fringe Benefits Tax and Superannuation issues.

My department, the Treasury, in conjunction with the Australian Taxation Office (ATO), has undertaken some work to meet your request. The information you sought is at the attachment to this letter.

I trust this information will be of assistance to you.

Yours sincerely

WAYNE SWAN

enc

QUESTION FROM STANDING COMMITTEE ON EMPLOYMENT AND WORKPLACE RELATIONS

Fringe Benefits Tax

Q1. How much of Fringe Benefits Tax (FBT) is collected in relation to child care in rural and regional areas, and what would be the estimated loss of revenue if an FBT exemption was provided?

Answer: The value of fringe benefits tax collected in respect of child care, in rural and regional areas (and therefore the estimated loss of revenue that would result from an FBT exemption being provided), is unquantifiable, as this class of fringe benefit is not separately identified on fringe benefits tax returns submitted by businesses.

Child care fringe benefits fall into the 'Other benefits (residual)' category on the FBT return, along with various other types of fringe benefits.

Also, as fringe benefits are reported on an employer basis, it would be difficult to distinguish the level of benefits provided to rural and regional employees for any given fringe benefit type, in cases where the relevant business(es) employed people in both major cities, as well as rural and regional areas.

Superannuation

Q1. In his report Australia's future tax system – The retirement income system: Report on strategic issues (page 13), Dr Ken Henry states that '… a single threshold [$450 per month] should continue to apply to ensure that the compliance costs, to the employer of providing the contribution, are outweighed by the benefits of to the employee'. Could you please provide additional information on what led Dr Henry to this conclusion?

Answer: As part of the review into Australia's Future Tax System (AFTS), submissions were received from interested parties. A number of submissions were received from parties interested in the issue of the Superannuation Guarantee (SG), including the abolition of the $450 SG threshold.

The Government appointed Review Panel (the Panel) considered the views expressed in all submissions. In respect of the $450 per month threshold, the Panel considered whether there was a need for an ongoing exclusion from the SG.

One issue the Panel considered was the nature of employment, in the economy, of individuals who earn less than $450 a month. This can range from a one-off employment arrangement (for example, a person who is paid $100 for working at a local event for a day) to ongoing casual employment. Another issue considered were the costs, in addition to the contribution, that an employer has in meeting their SG obligation. These costs include administration costs such as, opening an account, arranging for the payment to be made, and the retention of records for compliance purposes.

For the reasons given above, the Panel considered that it may not be appropriate or cost-effective to apply the SG from the first dollar of earnings, and that an exemption is still warranted. Accordingly, the Panel recommended retaining the $450 per month threshold, as this is a simple and existing means of setting an exemption, which balances the costs and benefits of the SG system.

Q2a. What is the estimated cost to employers of the removal of the $450 minimum superannuation guarantee threshold?

Answer: The estimated net cost to employers (after allowing for the tax deductibility for the SG payments) of the removal of the $450 minimum superannuation guarantee threshold is as outlined in the table below:

Financial Year	**2010-11 ($m)**	**2011-12 ($m)**	**2012-13 ($m)**
Net Cost to Employers	210	220	220

Q2b. What is the estimated cost of the provision of the superannuation guarantee to employees over 70 years of age?

Answer: The estimated net cost to employers (after allowing for the tax deductibility for the SG payments) of the provision of the superannuation guarantee to employees over 70 years of age is outlined in the table below:

Financial Year	**2010-11 ($m)**	**2011-12 ($m)**	**2012-13 ($m)**
Net Cost to Employers	61	65	65

- It is assumed that the SG liability ceases upon individuals reaching age 75.

Q3. What is the estimated cost to small and middle enterprises of the removal of the $450 minimum superannuation guarantee threshold?

Answer: The estimated net cost (after allowing for the tax deductibility for the SG payments) to small and middle enterprise employers, of the removal of the $450 minimum superannuation guarantee threshold, is as outlined in the table below:

Financial Year	**2010-11 ($m)**	**2011-12 ($m)**	**2012-13 ($m)**
Net Cost to Employers	135	140	140

- As part of this costings exercise, the Australian Taxation Office (ATO) used micro, and small to medium enterprises. Economic groups and single entities with an annual turnover less than $2 million were classified as micro businesses. Small to medium entities enterprises and single entities, with an annual turnover greater than $2 million and less than $250 million were allocated to the small to medium enterprise market segment.

Q4. What is the estimated cost to small and middle enterprises of removing the general exclusion of providing SG to employees over 70 years of age?

Answer: The estimated net cost (after allowing for the tax deductibility for the SG payments) to small and middle enterprise employers, of removing the general exclusion of providing SG to employees over 70 years of age, is outlined in the table below:

Financial Year	**2010-11 ($m)**	**2011-12 ($m)**	**2012-13 ($m)**
Net Cost to Employers	37	38	38

- It is assumed that the SG liability ceases upon individuals reaching age 75.
- As part of this costings exercise, the ATO used micro, and small to medium enterprises. Economic groups and single entities with an annual turnover less than $2 million were classified as micro businesses. Small to medium entities enterprises and single entities, with an annual turnover greater than $2 million and less than $250 million were allocated to the small to medium enterprise market segment.

Note on above costings:

- The above costings are of a low reliability and assume a start date of 1 July 2010. They are based on ATO data for 2007-08 and indicative assumptions regarding affected populations.