Australian Labor government appeases financial elite on superannuation tax

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Prime Minister Anthony Albanese's government performed a revealing backflip last week on its election promises to increase the low tax level, from 15 percent to 30 percent, on earnings from assets worth more than $3 million held in superannuation funds.

Under the Labor government's latest proposal, its changes—still to be detailed—will be delayed for 12 months until July 2026, giving the rich more time to rearrange their investments to avoid any impact.

The compulsory superannuation system set up by the Hawke-Keating Labor government in 1992, which deducts payments from workers in place of wage rises, has funnelled trillions of dollars into the financial markets. It has also become a lucrative tax rort for the most affluent layers of society, as the 15 percent tax on superannuation is well below the top income tax rate of 47 percent.

In addition, in 1999 the Liberal-National Coalition government of John Howard opened up further opportunities for the wealthy to avoid tax by establishing self-managed superannuation funds (SMSFs), ostensibly for the self-employed and small businesses. Such funds can include not just cash and shares but properties, including farms, and other valuable assets, even art works. They have become a means for minimising or avoiding capital gains taxes.

Treasurer Jim Chalmers indicated the extent of the tax rorts in his October 13 media announcement, saying: "Super tax concessions cost the budget more than $55 billion per year and will exceed the cost of the Age Pension in the 2040s."

What the government was always proposing, however, was a very modest impost, set to raise $2.5 billion in its initial year. Under the current proposal, the tax changes will bring in $4.2 billion less over the first four years, even on the government's optimistic figures. This will inevitably mean further cuts to social programs, including health, education and disability services.

As before, the extra 15 percent rate will apply only to the earnings derived from the funds above $3 million, not the earnings from the first $3 million. That means that the impact could be marginal for some well-off people with funds just above $3 million, but not for the super wealthy.

For example, according to one calculation by the *Guardian*, based on certain assumptions about fund earnings, an individual with $5 million in their fund would only pay about an extra $25,000 in annual tax. That would still likely leave them with around $270,000 in annual income from that fund, far above the median employee salary of $72,590.

When first announced, the super tax changes provoked a storm of opposition from the financial sector and media, in particular the plan to impose an annual tax on "unrealised" capital gains on property and assets held in SMSFs. Labor has now completely dropped that proposal, meaning the taxes will only apply if and when property and other assets are sold.

The main beneficiaries of this change will be the super-rich. By 2023, the wealth of the 100 biggest SMSFs had hit $13.1 billion, up by 50 percent since 2018. One SMSF held more than $500 million, the 10 biggest self-managed funds had an average of $422 million each in assets, and 42 funds had more than $100 million each.

After winning this year's May election with only a third of the primary vote, the Albanese government is anxiously trying to satisfy the demands of the financial markets, yet head off rising working-class discontent over falling living conditions.

In a bid to present its changes as "fair" and claim to be doing something to alleviate worsening working-class poverty, Chalmers announced a new 40 percent tax on earnings derived from amounts above $10 million in superannuation funds, which could affect about 8,000 individuals, as well as a small increase in the superannuation tax offset for 1.3 million low-income workers.

However, any tax relief for low-income workers will be pitiful. The government will increase the maximum low-income superannuation tax offset by $310 to $810 a year and raise the eligibility threshold from $37,000 to $45,000 from July 2027.

Workers on these wage levels have incomes so low that their income tax rates can be less than the 15 percent levied on superannuation contributions. The offset scheme pays into their superannuation fund any difference between the 15 percent and their income tax rate. Most would be living below the poverty line.

Without providing any evidence, Chalmers claimed: "These workers could receive a potential benefit at retirement of around $15,000 depending on an individual's income over their career." That could amount to less than $300 a year over a 50-year working life.

Nevertheless, Chalmers sought to depict the outcome as a win for social equity. "This is meaningful and substantial tax reform which will make the superannuation system fairer from top to bottom," he said on October 13.

At the same time, the government is still setting a precedent for higher taxes in the future on broader layers of superannuation funds, potentially affecting some wage earners. The $3 million threshold will be indexed annually in line with the official consumer price index from July 2027, increasing in $150,000 increments. But that indexation could be dropped or reduced over time, impacting wider sections of the population.

Much remains unclear about how the taxes will be calculated, depending on "consultation" with those affected. No draft legislation will be tabled in parliament until sometime next year. "Treasury will consult on implementation details including the best approach to the calculation of future realised gains and attribution to individual fund members," Chalmers said.

Chalmers has already indicated that the changes to the tax rates on large balances will only apply to future realised earnings, not to earnings on assets acquired before July 2026.

An October 14 editorial in the Murdoch media's *Australian* summed up the reaction of the rich. It denounced Chalmers for making "a new handout to the less well-off." It then demanded that he "refocus on the hard but necessary tasks of cutting spending and boosting productivity."

In reality, the government has already made deep inroads into spending on essential social services. In this year's budget, handed down just before the May election, Finance Minister Katy Gallagher said the government had found another $2.1 billion in "savings and reprioritisations," taking the total to $95 billion in its four budgets, mainly taken out of the NDIS disability scheme, public health and public education.

And more cuts will be made if the super tax increases fail to bring in the projected government income. Financial advisers are offering their services to the estimated 80,000 SMSF investors who could face paying a higher tax rate.

Earlier this year, the *Australian Financial Review* reported that the wealthy had begun restructuring their investment portfolios. They were taking steps such as moving assets into other structures, like trusts or investment companies, transferring money to their children or moving money offshore.

In his announcement last week, Chalmers declared: "Labor built our superannuation system and we're making it even stronger, fairer and more sustainable." In reality, the compulsory superannuation system set up by Labor was always a means of cutting government spending on pensions, a tax rort for the wealthy and a huge boost for the financial markets. Many of the super funds are compulsory "industry" funds, jointly run by employers and trade union bureaucrats.

At the same time, because of inadequate lifetime superannuation balances and miserable aged pension payments, 22.6 percent of retirees now live in poverty—a proportion that has nearly doubled over the past decade, according to an Australia Institute study.

Under the Labor government, as elsewhere around the world, millions of people are being impoverished while billionaire wealth continues to soar, social programs are cut and vast sums are funnelled into the military amid preparations for war.