In the News

What the Budget means for you

For wage earners including those employed in the information industry, the May 1995 federal budget will have little immediate impact on their personal finances. The most significant change will only take place in July 1997 when government subsidies to employee superannuation contributions commence.

Unfortunately the government's promises to provide benefits in the future are only that. Between now and 2000 when the government's total additional subsidy to superannuation is fully implemented, a further $4 billion in additional tax revenue will be required to fund this promise.

This means that the subsidy introduced in 1997 could well be different to that announced in the current budget. For the bulk of the tax and expenditure system, the latest budget followed the precedent set in 1994 and made only little or no changes.

For personal income tax rates, for example, the only change was an increase in the Medicare levy from 1.4 per cent of income to 1.5 per cent of income. This change is only a very small one with only a very small impact on the fortnightly or monthly pay packet.

The much more significant tax increase, totalling over $7 per week for a worker on average wages, has been a hidden one resulting from the effect of inflation in pushing all taxpayers into higher tax brackets. By not adjusting the personal income tax system for inflation since November 1993 when the last tax change was introduced, the government has effectively allowed the approximately nine per cent inflation that will have occurred between that time and June 30, 1996 to increase tax collections for it.

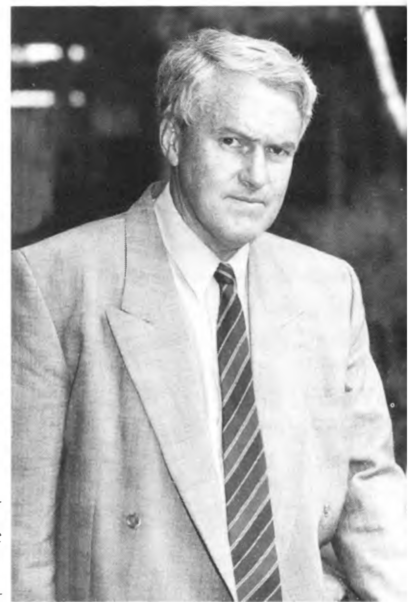
Using this taxation by stealth, the government has been able to keep budget tax increases down to a minimum applying increases only to the sales tax on new cars and some building products and increasing the excise on tobacco products. Whether future tax increases will be required will depend on the future developments in the economy, particularly with respect to future rates of economic growth.

To divert attention away from fundamental problems including the $27 billion annual balance of payments deficit, the government has been emphasising the significant boost to national savings from the new compulsory employee superannuation contributions. The changes are for essentially political reasons to have a delayed effect commencing on 1 July 1997.

At that time, the government will match with an income tested government subsidy the first one per cent of salary paid by employees into an award or employers' superannuation fund. The full subsidy will be paid to wage earners with a taxable salary up to $46,000 per year with a gradual reduction in the amount of subsidy thereafter.

From 1 July 1998, the subsidy will be increased to cover a two per cent of salary employee contribution with a further one per cent of salary increase scheduled to be implemented in the following year.

The government subsidy will be provided as a direct contribution claimed via your tax return into your stipulated award or employers' superannuation fund. This payment will be subject to the normal 15 per cent superannuation contributions tax and to the lump sum tax payable when the benefits are paid out of the fund.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A further restriction is that employee contributions attracting the government subsidy have to be retained in the superannuation fund until age 55 or later retirement. This will preclude access to payouts from government and private sector employer funds that are presently available to people changing jobs.

By far the best news for all existing superannuation fund members is that their existing employee contributions will attract the new government subsidy. Thus, if you are already contributing to a fund, you will not be faced with making any further contributions.

The new compulsory contributions will be significant mostly for employees receiving award superannuation benefits paid for totally by employers. The government's plan is to introduce the new employee contributions using the award system to compel employee contributions.

Those not covered by awards will miss out unless their employer schemes are adapted to include voluntary employee contributions. Whether it will pay wage earners to contribute to superannuation depends very much on their own personal situations. The vast majority of employees will receive matching government contributions to their superannuation funds.

But as with many government policies, there are strings attached to the subsidy which reduce its attractions for younger people. The key one is that the contributions attracting the subsidy must be preserved to the age of 55 or 60 (for those currently age 33 or less) even in the event of redundancy or resignation from employment.

The government subsidy is, as mentioned previously, also subject to the 15 per cent levied on employer contributions to funds and will then again be subject to lump sum benefit tax at a rate as high as 16.4 per cent. For many younger people, the fact that the money is taxed in this way may make it more attractive to them to concentrate on paying off their house mortgage rather than putting money into superannuation.

What the May 1995 budget has confirmed however, is that the government is placing a very high reliance on superannuation savings as a way out of our economic problems.

It remains to be seen whether the savings so generated can be better utilised than a great deal of similar savings in the past. The experience of many workers with superannuation to date has not been very satisfactory.

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