

# Briefing Note

7 July 2014

## Distributional impact of PUP savings measures

The Palmer United Party today announced its intention to block a number of government savings measures. This paper provides an overview of the distribution of those measures. The deferral of the increase in the bottom tax threshold was included in the package of measures to abolish the carbon tax. The rest of the measures relate to the ‘other measures’ associated with the repeal of the mining tax.

**Table 1: ‘Other measures’ set to be abolished along with the mining tax under the government bill**

	Impact 2014-15	Four year impact on budget balance (\$ million)
Low income superannuation contribution	836.1	2,701
Income support bonus	323.8	955
Schoolkids Bonus	1,258.2	3,930
Deferring the increase in the bottom threshold	0	1,500
<b>Total</b>	<b>2,418.1</b>	<b>9,085</b>

### Low income superannuation contribution

The low income superannuation contribution is a measure designed to offset the penalty of having super contributions taxed at 15 per cent when the taxpayer concerned has insufficient income to trigger any personal income tax liability.

The Low Income Super Contribution is calculated as 15 per cent of the super contribution to a maximum of \$500 so long as the income itself is less than \$37,000. The government pays that amount to the super fund as a co-contribution alongside other payments into super.

### Income support bonus

The income support bonus is a twice yearly payment to people on some income support payments and is designed to assist with unexpected living costs. It is paid on 20 September and 20 March at \$105.80 for singles and \$88.20 each for couples. The payments are adjusted each year in line with the Consumer Price Index. The payments that attract the bonus are:

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- ABSTUDY Living Allowance
- Austudy
- Exceptional Circumstances Payment
- Newstart Allowance
- Parenting Payment
- Sickness Allowance
- Special Benefit
- Transitional Farm Family Payment
- Youth Allowance

## Schoolkids Bonus

The Schoolkids Bonus is paid to eligible families each January and July. To be eligible for the Schoolkids Bonus the child must be in primary or secondary school and in receipt of the Family Tax Benefit Part A or government income support.

The Schoolkids Bonus is paid twice a year in January and July with each payment at \$205 twice a year for a primary school child and \$410 twice a year for a secondary school child.

The Schoolkids Bonus can be quite helpful for a large family even on a relatively high income. A family with one primary school child and two high school children would receive \$2,050 per annum. If that family relies on one income earner on average weekly wages, currently \$1,420.90 a week, the household's after-tax income is boosted by 3.5 per cent per annum which they receive at strategic times during the year. That is a significant item even for families quite a way up the income scale.

## Deferring the increase in the bottom tax threshold

Under previous arrangements it had been decided to increase the bottom tax threshold from \$18,201 to \$19,401. The bottom tax threshold is the income below which no tax is paid and above which tax applies at 19 per cent.

If a working family included two adults on \$37,000 pa (just over the minimum wage) that family would lose \$456 each year from 2015-16 as result of deferring the increase in the bottom threshold.

## **People affected by abolishing the LISC by electorate**

In an earlier study The Australia Institute examined the incidence of low income earners who would have been eligible for the low income superannuation contribution (LISC). The LISC assists low income earners by boosting their super contribution. The payments are made on behalf of people on incomes up to \$37,000. That data gives a good indicator of the incidence of low income earners by region and electorate.

Table 2 below provides the 10 electorates with the highest proportion of low income earners and sets out those electorates from highest at the top of the table.

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**Table 2: Ten hardest hit electorates from repeal of the LISC**

Commonwealth Electoral Divisions	Number of employees affected	Proportion of employees affected	Party
Cowper, NSW	23,093	46.5	National
Page, NSW	23,392	46.0	National
Mallee, Vic	24,674	45.4	National
Lyne, NSW	20,843	44.8	National
Richmond, NSW	23,762	44.5	ALP
Wide Bay, Qld	22,947	44.4	National
Lyons, Tas	17,796	44.3	Liberal
Murray, Vic	24,199	44.1	Liberal
Barker, SA	29,219	44.0	Liberal
Wannon, Vic	24,986	43.8	Liberal

Table 2 shows the National Party holds five of the top six electorates on this measure. Included there is Wide Bay held by the Deputy Prime Minister, Warren Truss. The ALP has the non-National seat among those 10 seats; the rural seat of Richmond. The Liberal Party holds four of the top 10 seats; again they tend to be rural seats.

**Table 3: Ten least hardest hit seats from the repeal of the LISC**

Commonwealth Electoral Divisions	Number of employees affected	Proportion of employees affected	Party
Wentworth, NSW	15,216	18.1	Liberal
North Sydney, NSW	15,322	19.6	Liberal
Solomon, NT	10,911	20.4	CLP
Melbourne Ports, Vic	18,131	20.9	ALP
Canberra, ACT	19,987	21.7	ALP
Warringah, NSW	16,685	21.9	Liberal
Sydney, NSW	21,092	22.0	ALP
Fraser, ACT	23,563	23.1	ALP
Higgins, Vic	16,800	24.1	Liberal

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Brisbane, Qld                      20,266                      24.3                      Liberal

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Table 3 shows that the electorates with the lowest proportions of low income employees tend to be inner-city electorates and are held by the Liberal Party and the ALP. The clear exception is Solomon in the NT. This list includes the seats held by the Prime Minister and Treasurer Joe Hockey. Overall the seats range between Cowper, NSW with 46.5 per cent low income earners and Wentworth, NSW with 18.1 per cent being low income earners.

Table 4 summarises the data and presents the averages for electorates by the political party that holds the seats.

**Table 4: Average numbers and proportions of low income workers**

Party	Average number	Proportion
ALP	22,215	33.7
Liberal	21,678	33.5
Nationals	23,802	40.9

Table 4 confirms that the National Party has a substantially higher average number of people eligible for the low income superannuation contribution. The ALP and Liberal Party have virtually the same proportion at around a third of employees in those electorates.

Table 5 presents the party data by State and Territory.

**Table 5: Average numbers and proportions of workers likely to be affected by the super contribution repeal**

Party	NSW	Vic	Qld	SA	WA	Tas	ACT	NT
ALP	33.4	34.7	31.2	36.0	29.1	35.8	22.4	31.2
Liberal	31.6	35.5	34.6	37.1	30.4	42.1	na	20.4
Nationals	42.9	43.6	37.7	na	na	na	na	na

Again Table 5 shows that the National Party has a higher proportion of low income earners in states where they have representatives. These results are interesting because there is a popular perception that the Labor Party represents the areas with low income earners and is therefore more likely to pursue policies that redistribute income and resources towards the poor. The figures presented in this subsection suggest otherwise and in fact it is the National Party that should be the champion of the low income earner.

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**Table 6: Distribution of the schoolkids bonus by State**

State	Number of families	Share of total (%)	Value over forward estimates (\$ million)
ACT	12,642	1.02	40.1
New South Wales	394,628	31.87	1,252.6
NT	14,648	1.18	46.5
Queensland	266,088	21.49	844.6
South Australia	98,973	7.99	314.2
Tasmania	35,843	2.90	113.8
Victoria	306,190	24.73	971.9
Western Australia	108,895	8.80	345.7
not specified	193	0.02	0.6
<b>Total</b>	<b>1,238,100</b>	<b>100.00</b>	<b>3,930.0</b>

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