



SUPER  
MEMBERS  
COUNCIL

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# Breaking the deal: why the LISTO needs to be fixed





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### About the Super Members Council (SMC)

We are a strong voice advocating for the interests of 12 million Australians who have over \$1.6 trillion in retirement savings managed by profit-to-member super funds. Our purpose is to protect and advance the interests of super fund members throughout their lives, advocating on their behalf to ensure super policy is stable, effective, and equitable. We produce rigorous research and analysis and work with Parliamentarians and policy makers across the full breadth of Parliament.



## Executive summary

Tax concessions are central to the success and fairness of super. At its heart, there's a deal: Australians put aside a portion of their money for their future - in exchange the government gives them a low tax rate of 15% on their super.

The Low Income Super Tax Offset (LISTO) was introduced<sup>1</sup> to ensure this tax benefit is also received by lower-income workers, given their lower marginal income tax rate. It's a fairness fix.

But LISTO has never been updated. It's been frozen and fallen behind other system changes. As a result, the deal as it applies to lower-income workers is breaking down, with millions no longer getting the tax benefit they deserve.

This challenge will become even more acute when income tax changes for low income workers take effect on 1 July 2027. These changes will result in 1 in 4 working Australians paying a higher tax rate on their super than on income. Workers will be financially penalised for putting aside savings for their future - the opposite of what was intended.

The only way to address these issues is to fix the LISTO.

### How to fix the LISTO

To make super tax settings fairer for low-income earners, the Government should lift eligibility for the LISTO to fully cover the first two tax brackets, and increase the amount paid to fully refund the tax that low-income workers pay on their super.

These changes will restore the original deal at the heart of the super system, where all workers get a tax benefit in return for saving for their retirement. These changes will also immediately lift the projected retirement balances for the nation's lowest-paid workers, giving them more financial security in retirement.

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<sup>1</sup> Originally the Low Income Superannuation Contribution (LISC)



## Introduction

Super is based on a social contract: Australians are taxed at a lower rate on their super than on their salary as reward for putting away savings for retirement. But because super is taxed at a flat rate of 15% (for most people), higher income earners get a much bigger 'reward' (tax concession) because they pay a higher marginal tax rate.

To address this inequity, in 2012 the Government introduced the Low-Income Super Tax Offset (LISTO) as a fairness measure. The LISTO refunds the tax paid on super contributions for low-income workers earning up to \$37,000, capped at \$500. This refund is paid back into their super accounts, which compounds over a lifetime to make a significant difference to the amount of money saved for retirement. The original design of the LISTO ensured all low-income earners received a 15% tax concession for money they contributed to super.

However, changes over time, including inflation, changes to the Super Guarantee (SG) rate and tax brackets, have meant the LISTO is no longer working as intended and over a million low-income workers, 60% of them women, are being short-changed.

### The income threshold is too low

When LISTO was introduced, anyone earning up to \$37,000 qualified, covering workers in the first two tax brackets. They received a full refund of the tax paid on their SG contributions, ensuring a fairer tax benefit for low-income workers. This served as a fairness fix.

However, the LISTO has been frozen for 13 years and has fallen behind changes to tax brackets. The second income tax bracket's upper threshold increased on 1 July 2020 from \$37,000 to \$45,000 - but LISTO did not. That means people earning between \$37,000 and \$45,000 (over 500,000 low-income workers) don't get a super tax refund.

Today, a person earning \$40,000 gets a tax concession of just 1% on their super (16% marginal income tax rate compared to a 15% tax rate on super), while a person earning \$220,000 gets a 30% tax concession (a 45% marginal tax rate compared to a 15% tax rate on super).

### The offset amount has not kept pace

Another outdated feature of the LISTO is that the offset amount has not kept pace with contribution rates, short-changing those who are eligible.

When the LISTO was introduced, the offset was capped at \$500 and this refunded all the tax paid on a worker's super guarantee contributions of 9% back into their super accounts. But super guarantee contributions are now 12%. To fully refund the tax on SG contributions up to an income of \$45,000, the offset needs to increase to \$810.

### Quantifying the problem

Analysis by SMC - the full details of which are outlined further in this report - shows how unfair this freeze on the LISTO has become on lower-income workers.

- In 2025-26, 1.2 million workers will miss out on around \$500 million in super tax concessions.
- Since 2020, these workers have missed out on a cumulative \$3 billion in super tax concessions.
- Women are more likely to miss out, comprising 60% of affected workers. An estimated 737,000 women will miss out on \$295 million worth of super tax concessions in 2025-26.
- Missing out on tax concessions adds up. Over a working life, a woman in the bottom 20% of wage earners could lose up to \$60,000 from their super balance by retirement.
- Women most likely to miss out are child carers, personal carers, education aides, sales assistants, midwives and hospitality workers.



## In two years, the deal for low-income workers will be well and truly broken

Tax concessions are central to the success and fairness of super.

Currently without LISTO, workers earning less than \$45,000 are given a very meagre 1% tax concession on their super. Legislated tax cuts coming into effect on 1 July 2027 will reduce the tax rate for incomes between \$18,200 and \$45,000 to 14%. When that happens, 1 in 4 (5 million) low-income workers will be paying more tax on their super than on income, in other words they will be being financially penalised for saving for their retirement, contrary to the original intent.

Table 1 below shows the tax concessions that Australian workers will receive after 1 July 2027, if we don't fix the LISTO.

**Table 1: Marginal income tax vs super contributions tax from 1 July 2027**

Income tax bracket	Marginal income tax	How much workers are taxed on super contributions	Difference between tax on income and tax on super
\$0-\$18,200	0%	0%	NA
\$18,201-\$27,776	14%	0%*	14%
<b>\$27,777** - \$37,000</b>	<b>14%</b>	<b>15%*</b>	<b>-1%</b>
<b>\$37,001- \$45,000</b>	<b>14%</b>	<b>15%</b>	<b>-1%</b>
\$45,001-\$135,000	30%	15%	15%
\$135,001-\$190,000	37%	15%	22%
\$190,001-\$250,000	45%	15%	30%
\$250,001 plus	45%	30%***	15%

\*: Taking into account current LISTO settings

\*\*: With 12% SG contributions, the \$500 LISTO cap is reached at an income of \$27,777

\*\*\*: Division 293 tax applies when combined income and concessional contributions is more than \$250,000

**Without changes to LISTO, Sally, a cleaner earning \$42,000, will pay more tax on her super than her income - while Fred, a senior manager earning \$220,000, gets a 30% tax cut.**





## The size of the problem

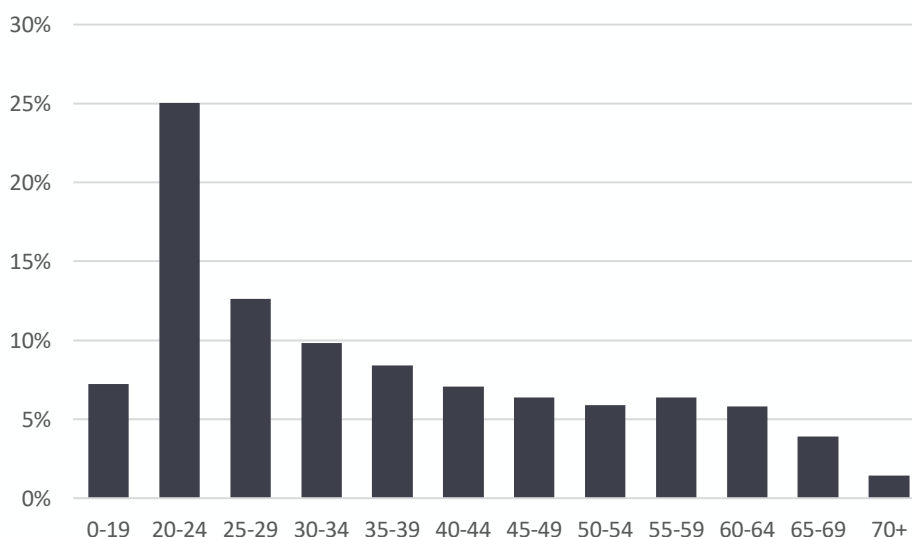
The failure to update the LISTO means 1.2 million workers across Australia will miss out on around \$500 million in super tax concessions in 2025-26.

Since 2020, Australia's lowest paid workers missed out on a combined \$3 billion in super tax concessions, significantly compromising their ability to achieve economic security in retirement.

### Age and gender

Young Australians are the hardest hit. One quarter of the people hurt by the LISTO freeze are 20-24 years old (see Figure 2). With around three-quarters of your super balance at retirement coming from compound returns, missing out on super early in life deprives these younger workers the full benefit of decades of growth.

**Figure 2: Age distribution of those affected by the LISTO freeze**

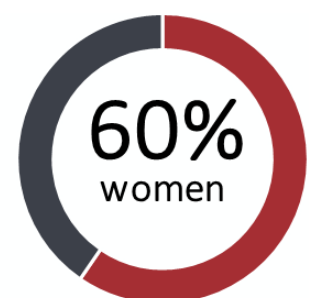


**Source:** SMC analysis of ATO 2% sample file, 2022-23.

Women comprise 60% of the workers hurt by the LISTO freeze. SMC modelling estimates 737,000 women will miss out on \$295 million worth of super contributions in 2025-26.

Women are harder hit because they are more likely to earn low-incomes and more likely to work in part-time and casual roles.

The impact on women is often more acute as they tend to have lower balances and experience other workplace inequities, which compound with the impacts of the LISTO freeze, reducing their savings at retirement.





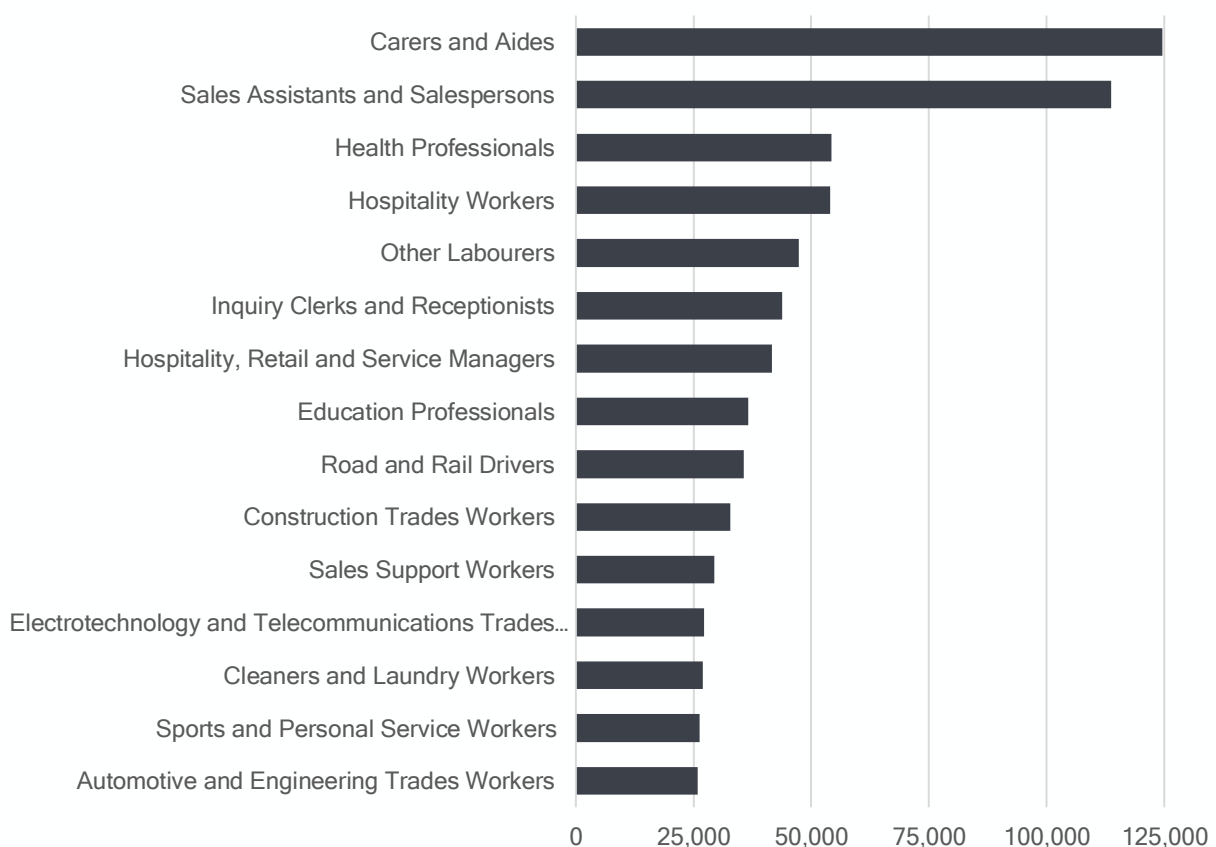
## Most affected occupations

The impact of the LISTO freeze is concentrated in frontline, lower-paid sectors. In 2025-26, the largest numbers of affected workers are employed as:

- Carers and aides (including child carers, personal carers and education aides).
- Sales assistants in retail.
- Hospitality workers, such as waiters, bar staff and kitchen hands.
- Health professionals, including people working in aged care and those working part-time.

These roles are critical to the community and economy, yet these workers are among those missing out most from the LISTO freeze.

**Figure 3: Occupations of the most affected workers (men and women)**



**Source:** SMC analysis of ATO 2% sample file (2022-23) and HILDA Wave 23.



## The impact at retirement

The failure to unfreeze the LISTO significantly compromises people's ability to achieve economic security in retirement.

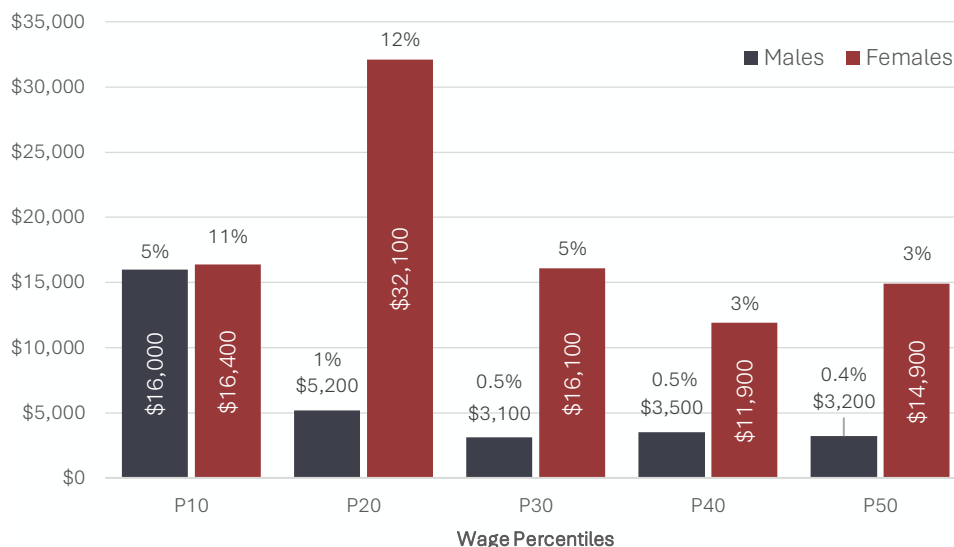
A female worker in the bottom 20% of wage earners is losing up to \$32,000 or over 12% of their total retirement balance due to the LISTO freeze (Figure 6). This analysis assumes a proportion of those workers will move into higher tax brackets during their careers. However, for those workers who remain in the lower paid employment (and low tax brackets), the LISTO freeze could mean up to \$60,000 lost from their final retirement balances.

Women currently approach retirement with 25% less super than men. Unfreezing the LISTO is an important step the Government can take now to make super fairer for women and help narrow the gender super gap.

**A female worker in the bottom 20% of wage earners is losing up to \$32,000 or over 12% of her total retirement balance due to the LISTO freeze**



**Figure 6: The \$ cost of an outdated LISTO on a typical workers' retirement balance, by wage percentile**



Source: SMC cameo modelling

### Case studies

The following case studies illustrate the impact of the LISTO freeze on women at retirement.

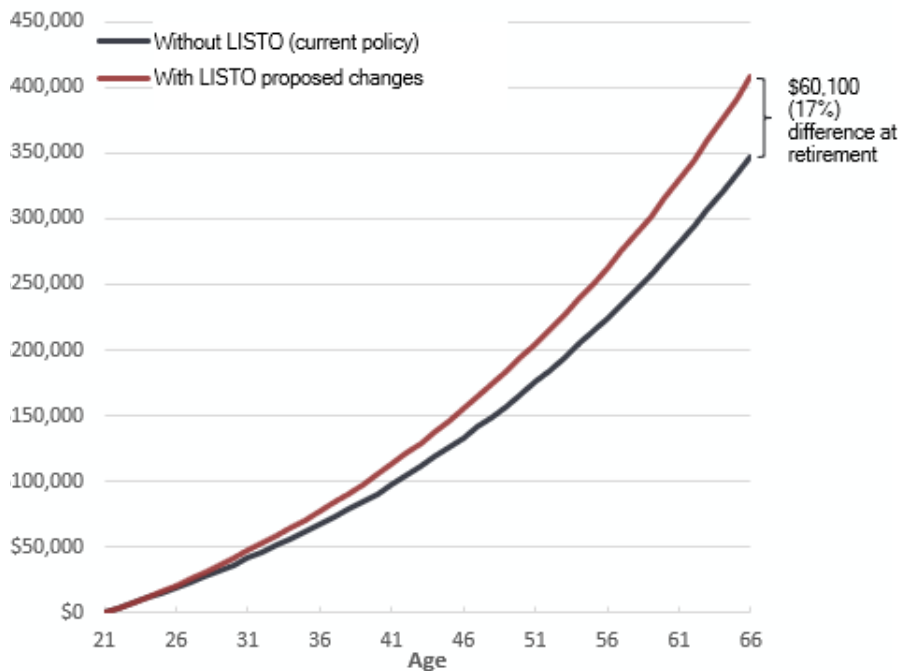
#### Case study 1: Carer (e.g. child carer, personal carer, education aide)

Should LISTO remain unfixed for her entire working life, Jenny, a female childcare worker, could retire with \$60,000 less in super. That is almost a fifth less super than if she was eligible for the LISTO, making her poorer in retirement and increasing her reliance on the Age Pension (and the cost to future taxpayers) by \$41,000.





**Figure 4: Impact on the retirement balance of a female carer from the LISTO freeze**



“Without changes to LISTO, a female carer could retire with \$60,000 less”

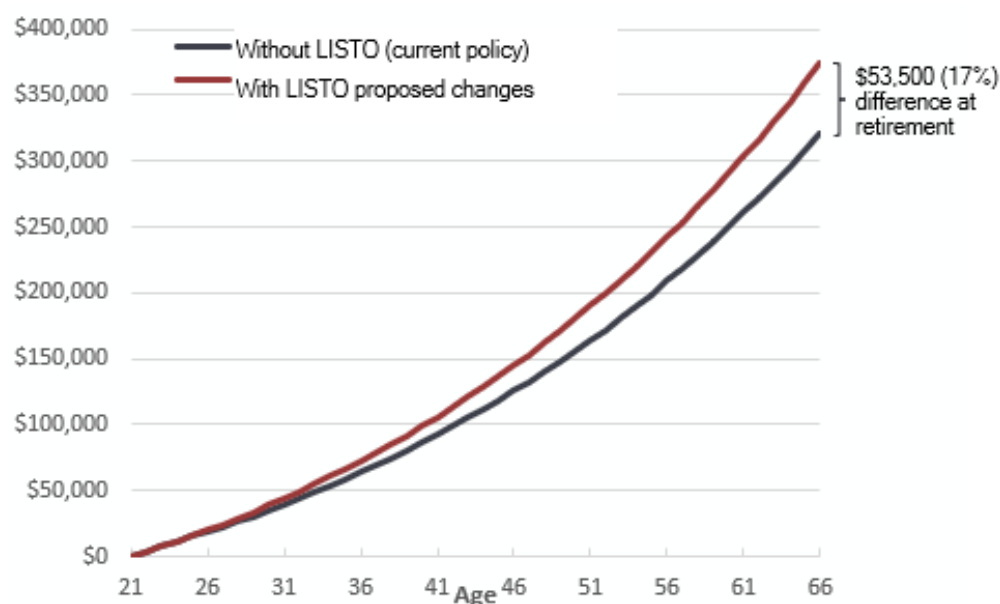
**Source:** SMC analysis of ATO 2% sample file, 2022-23, and ABS 2021 Census.

**Note:** This cameo assumes a female carer working 3-days a week from age 22 to 67.

#### Case study 2: Hospitality worker

If LISTO remained unfixed for her entire working life, Nora, a female hospitality worker, could retire with \$53,500 less in super. This would increase her reliance on the Age Pension (and the cost to future taxpayers) by \$34,900.

**Figure 5: Impact on the retirement balance of a female hospitality worker from the LISTO freeze**



“Without changes to LISTO, a female hospitality worker could retire with \$53,500 less”

**Source:** SMC analysis of ATO 2% sample file, 2022-23, and ABS 2021 Census.

**Note:** This cameo assumes a female hospitality worker working 3-days a week from age 22 to 67.



## How to fix LISTO - the policy solution

To make super tax settings fairer for low-income earners, the Government should lift eligibility for the LISTO to fully cover the first two tax brackets and increase the amount to fully refund the tax that low-income workers pay on their super.

That means:

- Increasing the eligibility threshold from \$37,001 to \$45,000; and
- increasing the offset amount to \$810 to reflect the legislated Super Guarantee rate (Table 2).

These changes will:

- ensure that low-income workers get a fair super tax cut relative to their income, like all other workers, and ensure no worker pays more tax on their super than their income
- boost the super of more than 1.1 million Australians - 60% of whom are women; and
- lift standards of living in retirement for more of the nation's lowest-paid workers.

**Table 2: policy changes required to unfreeze LISTO**

LISTO Eligibility	Increase from \$37,000 to \$45,000. This will ensure no worker pays more tax on their super than their income
LISTO offset amount	Increase from \$500 to \$810. This will ensure a full refund of tax paid on compulsory Super Guarantee contributions of 12%

### What is the cost

Unfreezing the LISTO and applying the changes in Table 2 would cost the budget around \$470 million in 2026-27. That is \$470 million going directly into the retirement savings of over 1.2 million low-income workers, helping them to secure a more dignified retirement.

By way of comparison, this is a fraction of the revenue the Government is forecast to receive from the proposed Division 296 Better Targeted Super Concessions Measure (\$3 million tax), which is projected to raise \$2.3 billion in its first full year (2027-28).

**Table 2: Estimated cost to unfreeze LISTO (\$m)**

2026-27	2027-28	2028-29	2029-30
-470	-450	-430	-410

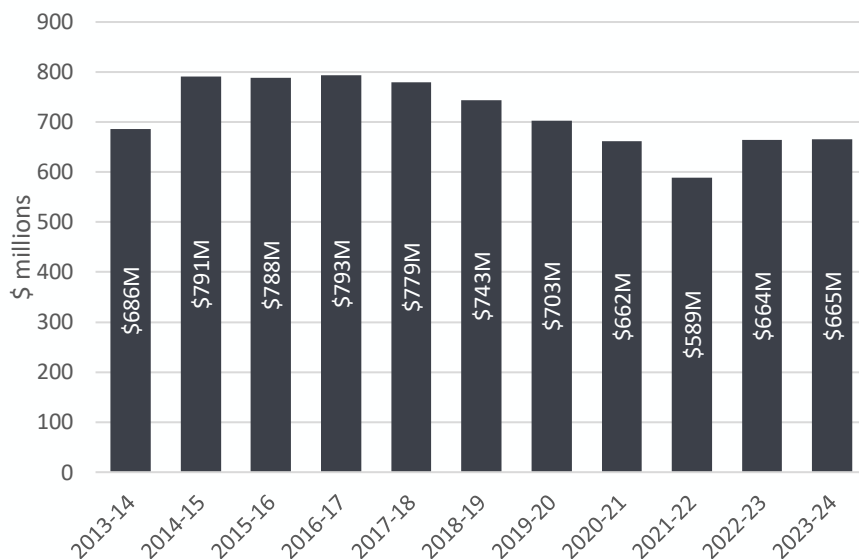
**Source:** SMC analysis of ATO 2% sample file, 2022-23

### Government support for low-income workers has continued to decline

Figure 7 shows Government financial support of low-income workers has declined over time by failing to unfreeze the LISTO. Financial support for these workers is now lower than when LISTO was introduced over a decade ago.



**Figure 7 - Annual Federal Government expenditure on LISTO since inception**



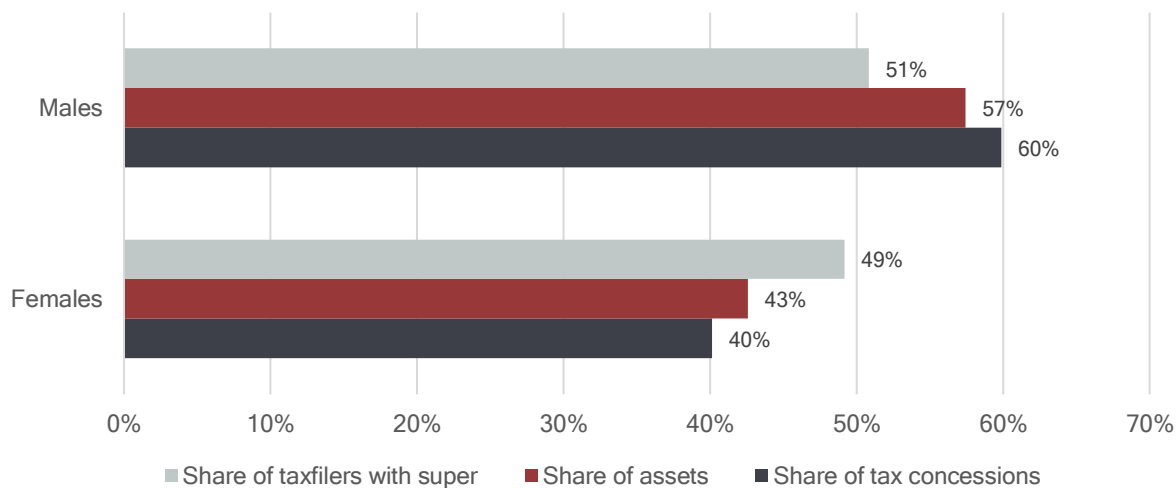
**Source:** ATO Annual Reports

## An out of date LISTO is exacerbating existing inequities

The failure to fix LISTO is contributing to existing inequalities in the super system.

For example, Figure 8 shows women had a lower proportion of super assets than men in 2020-21, and an even lower (two fifths) proportion of super tax concessions, to which LISTO is a contributing factor.

**Figure 8: Gender share of total assets and tax concessions**

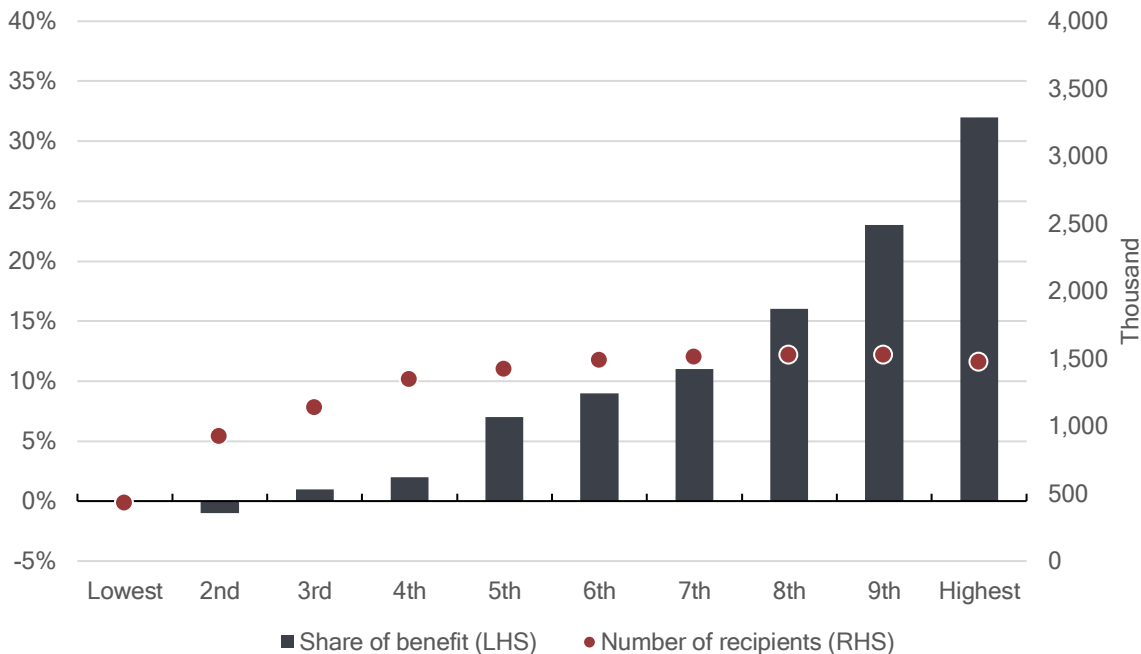


**Source:** ATO Taxation Statistics, 2020-21



Figure 9 further highlights the issue, showing the distribution of tax concessions across the super system based on income. Currently, the wealthiest 10% of taxpayers receive 32% of the total value of contributions tax concessions in 2021-22, while the poorest 50% combined receive just 9%.

**Figure 9: Share of contributions tax concession benefit by taxable income decile (2021-22)**



**Source:** Treasury

Unfreezing LISTO would help reduce these system inequities, which disadvantage lower-income earners, especially women.

## Conclusion

Australia's universal and compulsory super system has changed the way Australians live in retirement, lifting living standards particularly for lower and middle income households.

But, as with all intergenerational policies, super must continue to be strengthened. We must ensure the system is fair and continues to deliver on its promise for all Australians.

As this report makes clear, low-income workers are one group who have the most to gain from super but who are currently missing out on the original promise of a lower tax on savings for retirement.

Lifting eligibility for the LISTO and increasing the amount of tax refunded will ensure low-income workers get a fair super tax cut, strengthening retirement for more of the nation's lowest-paid workers.