



Australian Government
Department of Finance
The Treasury

PUBLIC RELEASE OF 2022 ELECTION COMMITMENT COSTING

Name of proposal costed: Incentivising Pensioners to Downsize	
Costing Identifier:	COA 032
Summary of costing:	From 1 January 2023, the proposal is to: <ul style="list-style-type: none">• Extend the assets test exemption for principal home sale proceeds from 12 months to 24 months for income support recipients.• Change the income test, to apply only the lower deeming rate (0.25 per cent) to principal home sale proceeds when calculating deemed income for 24 months after the sale of the principal home.
Ongoing or Terminating (including date)^(a)	Ongoing.
Person making the request:	Prime Minister.
Date costing request received:	16 May 2022.
Date of public release of policy:	15 May 2022.
Date costing completed:	19 May 2022.
Additional information requested (including date):	Not applicable.
Additional information received (including date):	Not applicable.

(a) Ongoing policies continue indefinitely (until a decision is made to cease or alter the program). Terminating measures end on a date set out in the initial policy and a further decision is required to continue the program beyond this date.

Financial implications (outturn prices)^(b)

Impact on	2021-22	2022-23	2023-24	2024-25	2025-26
Underlying Cash Balance (UCB) (\$m)	0.0	-9.2	-17.9	-16.7	-17.6
Fiscal Balance (\$m)	0.0	-9.2	-17.9	-16.7	-17.6

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A positive number for the UCB indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Where relevant, state that the proposal has been costed as a defined or specified amount.

Not applicable.

Where relevant, include separate identification of revenue and expense components.

Revenue components (\$7.0 million over the forward estimates) are reflected in the financial impact table and reflect increased taxation revenue from a larger cohort receiving social security payments.

Where appropriate, include a range for the costing or sensitivity analysis.

Not applicable.

Qualifications to the costing (including reasons for the costing not being comprehensive).

Not applicable.

Where relevant, explain effects of departmental expenses.

As specified in the costing request, the Department of Social Services, Services Australia and the Department of Veterans' Affairs would absorb the associated departmental costs.

Where relevant, explain the reason for any significant differences between the assumptions specified in a party costing request and those used in a Treasury or Finance costing.

Not applicable.

Other comments (including reasons for significant differences between the estimated impact on the fiscal and underlying cash balances).

Where relevant, include an explanation of the medium-term implications of the proposal.^(c)

Not applicable.

(c) Information on the medium term implications will be provided if the cost of the policy is expected to be significantly different beyond the forward estimates period. The medium term is considered to be the 7 years after the current forward estimates.

Background information

Costing methodology used:

- The cohort estimates are based on Services Australia data on social security payment recipients' 'encumbered' assets held in savings, which are predominately from the sale of the primary home. This data also provides the average amount of primary home sale proceeds which would now be subject to the lower deeming rate.
- Costs under this proposal are allocated to the Department of Social Services and the Department of Veterans' Affairs, which both administer social security payments.
- Australian Taxation Office data on tax paid by part-rate pensioners has been used to estimate average marginal tax rates for the cohort of affected income support recipients. Average marginal tax rates include the marginal rate, any applicable tax offsets and the Medicare levy. The revenue impact is calculated as the increase in income support payments multiplied by the average marginal tax rate. It is assumed that all additional tax will be paid on lodgement of tax returns.

Policy parameters

- Under current arrangements, primary home sale proceeds are subject to the income test, where an upper deeming rate of 2.25 per cent is used to calculate deemed income (applied to financial assets over \$53,600 for singles and \$89,000 for combined couples). The proposal would only apply the lower 0.25 per cent deeming rate for principal home sale proceeds.

Attachment A – Incentivising Pensioners to Downsize – financial implications

Table A1: Incentivising Pensioners to Downsize – Fiscal and underlying cash balances (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
<i>Revenue</i>	-	1.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0	7.0	32.0
Total – revenue	-	1.0	3.0	3.0	3.0	3.0	3.0	4.0	4.0	4.0	4.0	7.0	32.0
Expenses													
<i>Expenses</i>	-9.2	-18.9	-19.7	-20.6	-21.7	-22.9	-24.1	-25.3	-26.5	-27.8	-29.1	-68.4	-245.8
Total – expenses	-9.2	-18.9	-19.7	-20.6	-21.7	-22.9	-24.1	-25.3	-26.5	-27.8	-29.1	-68.4	-245.8
Total (excluding PDI)	-9.2	-17.9	-16.7	-17.6	-18.7	-19.9	-21.1	-21.3	-22.5	-23.8	-25.1	-61.4	-213.8

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

Table A2: Incentivising Pensioners to Downsize – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
<i>Fiscal balance</i>	-0.1	-0.4	-0.8	-1.2	-1.7	-2.2	-2.9	-3.6	-4.4	-5.3	-6.4	-2.5	-29.0
<i>Underlying cash balance</i>	-0.1	-0.4	-0.8	-1.2	-1.6	-2.2	-2.8	-3.5	-4.3	-5.2	-6.3	-2.5	-28.4

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary¹.
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

¹ [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)