Parliamentary Budget Office

Super Home Buyer Scheme and Downsizer Contributions	
Party:	The Coalition

Summary of proposal:

The proposal has 2 components.

Component 1: Establish the Super Home Buyer Scheme

- Component 1 would establish the Super Home Buyer Scheme, which would allow first-home buyers to access up to 40% or $50,000 (whichever is less) of their superannuation as a contribution towards a property purchase. Participants would be required to:
  - be an owner-occupier of the property for at least 12 months
  - provide a deposit of at least 5% of the property purchase price, excluding the amount withdrawn from superannuation
  - return the withdrawn funds, including any proportional capital gains or losses, to their superannuation upon disposal of the property.
- The scheme would be accessible in conjunction with existing first-home-buyer schemes, such as the Home Guarantee Scheme and the First Home Super Saver Scheme.
- There would be no income or property price thresholds under the scheme, and couples would be assessed individually. Furthermore, any member of a couple who is a first-home buyer can access the scheme, even if their partner is not a first-home buyer.
- The scheme would be administered by the Australian Taxation Office (ATO).
  - Funds returned to superannuation upon disposal of the property would not be included in the annual superannuation contributions thresholds.
  - If the property is the participant's main residence at the time of disposal, any capital gains would be exempt from capital gains tax (CGT). Otherwise, CGT would be assessed by the ATO and levied in accordance with current arrangements.
  - Funds not returned to superannuation would incur a penalty levied at the top marginal tax rate plus the Medicare levy.
- The scheme would commence as soon as possible but no later than 1 July 2023.

Component 2: Reduce the eligibility age for downsizer contributions into superannuation

- Component 2 would reduce the eligibility age for downsizer contributions into superannuation from 60 to 55.
  - This would allow individuals to make a one-off, post-tax contribution to their superannuation of up to $300,000 per person from the proceeds of selling their home. This contribution would not count towards the non-concessional contributions caps.
- The proposal would commence 1 July 2022 and be administered by the ATO in accordance with current arrangements.

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balance by around $323 million across the 2022-23 Budget forward estimates. The decrease in the budget balances primarily reflects a net decrease in superannuation earnings tax revenue, though Component 2 also reflects a decrease in personal income tax revenue. Departmental resources for the ATO to implement Component 1 also contribute to the decrease in the budget balances across the forward estimates.

The proposal would have an impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) across the period to 2032-33 is provided at Attachment A.

The financial implications of Component 1 are primarily driven by the take-up rate of the scheme, which affects the amount of tax collected on superannuation earnings. There is significant uncertainty around the proportion of first-home buyers that would access the scheme as well as uncertainty around the amount of superannuation that would be withdrawn. If, for example, the take-up rate of the scheme is much lower than what is assumed, the financial implications of Component 1 would be much smaller. The estimated costs of Component 1 are also sensitive to the trajectory of property prices, the rate of return on superannuation funds, and the amount of time that participants in the scheme would hold their property before disposal.

The financial implications of Component 2 are sensitive to the same factors, as well as the potential for some individuals (who would have otherwise have downsized above age 60) to downsize early in response to the proposal. Component 2 would result in a decrease in personal income tax revenue for individuals who would have downsized regardless of the proposal, but an increase in superannuation earnings tax revenue for those who downsize in response to the proposal. This reflects that investment returns outside of superannuation are typically taxed at higher rates than those within superannuation and that owner-occupied housing is not taxed at all.

The combined uncertainties of Component 1 and Component 2 mean that the financial implications of the proposal could differ significantly from those estimated in this response. Furthermore, the Parliamentary Budget Office (PBO) has not assessed any potential flow-on effects to the housing market or the broader economy in response to the proposal.

Table 1: Financial implications ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-54.0	-106.0	-71.0	-92.0	**-323.0**
Underlying cash balance	-54.0	-106.0	-71.0	-92.0	**-323.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

Key assumptions

The PBO has made the following assumptions in costing the proposal.

Both components

- The effective marginal tax rate on returns inside superannuation would be 9.75%.

  - The effective marginal tax rate was calculated based on the 15% marginal tax rate on returns inside superannuation less discounts for capital gains and imputation credits.
- The rate of return on superannuation fund investments would be 7.5%, consistent with the central case in the Treasury's *Retirement Income Review, July 2020*.
- The fees on superannuation balances would be 0.85%.

Component 1: Establish the Super Home Buyer Scheme

- The take-up rate of the proposal would be 80% of the eligible population.
- Each property purchased through the scheme would represent an average of 1.8 participants.
- The average annual superannuation withdrawal per participant would be $21,325.
  - While the maximum amount that can be withdrawn is $50,000, participants in the scheme would be required to have a superannuation balance of at least $125,000 to access this amount. Superannuation balances for first-home buyers are typically below this.
- Around 32% of superannuation withdrawals made between 2023-24 and 2032-33 would be returned to superannuation by 2032-33.
  - This reflects the likelihood that some properties purchased under the scheme would be sold before the end of the period to 2032-33. This figure incorporates any capital gains or losses that would also be returned to superannuation.
- 198,000 participants would access the scheme in 2023-24 and 2024-25, and 113,000 participants would access the scheme each year from 2025-26 to 2032-33.
  - The increased number of participants in 2023-24 and 2024-25 reflects provisions for recent market conditions as well as a behavioural response for some individuals to time their purchase of a property to the period immediately after the proposal commences.
- Any revenue from penalties levied on funds not returned to superannuation would be negligible.
- The proposal would start 1 July 2023.

Component 2: Reduce the eligibility age for downsizer contributions into superannuation

- The average annual downsizer contribution to superannuation per participant would be $160,410.
  - This reflects assumed average proceeds of sale from downsizing, the amount to which participants that are downsizing would already be able to contribute within their non-concessional contributions cap, and assumes that participants would not exceed the transfer-balance cap on their superannuation balance.
- Earnings on investments outside of superannuation (excluding owner-occupied housing) would be taxed at the average marginal tax rate for those aged 55 to 59, decreasing over time as participants approach retirement and transition from salary and wage income to superannuation income.
- Around 5,000 participants would make contributions to superannuation through the scheme each year from 2023-24 to 2032-33 (around 1.75% of the eligible population).
  - This assumption was based on the observed take-up rate of the 2017-18 Budget measure Reducing Pressure on Housing Affordability — contributing the proceeds of downsizing to superannuation.
- From 2026-27 to 2032-33, 25% of superannuation contributions under the scheme would come from those aged between 55 and 59 that would have otherwise downsized after the age of 60.

- The behavioural response from 2026-27 reflects the time required for participants to prepare their financial affairs to downsize earlier than under the current arrangements.
- This response partially offsets the negative revenue impact from those already downsizing in the absence of the proposal.

- Departmental expenses to implement the proposal would be nil, as the scheme already exists for those aged over 60.

Methodology

The financial implications of both components were estimated based on modelling provided by the Treasury and the ATO for the Coalition's commitment *COA 034 – Super Home Buyer Scheme and Downsizer Contributions*, with medium-term estimates based on the assumptions outlined above.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Component 1: Establish the Super Home Buyer Scheme

The total amount withdrawn from superannuation each year was calculated by multiplying the average number of participants by the average superannuation withdrawal. The decrease in superannuation tax revenue was then estimated by multiplying the total amount withdrawn by the assumed superannuation tax rate, with provisions for CGT, imputation credits, and investment balance fees. The earnings after taxes and fees each year were added to the total amount withdrawn to calculate the tax impact of compounding returns, with an offset applied after the forward estimates to account for the disposal of some properties purchased under the scheme. Departmental expenses were estimated based on information provided by the ATO.

Component 2: Reduce the eligibility age for downsizer contributions into superannuation

The total amount contributed to superannuation each year was calculated by multiplying the average number of participants (including those who bring forward their decision to downsize) by the average superannuation contribution. The increase in superannuation tax revenue was then estimated by multiplying the total amount contributed by the assumed superannuation tax rate, with provisions for CGT, imputation credits, and investment balance fees. The earnings after taxes and fees each year were added to the total amount contributed to calculate the tax impact of compounding returns. The offsetting decrease in personal income tax revenue for individuals that would have downsized in the absence of the proposal was calculated in the same way, but with earnings taxed at participants' marginal tax rates.

Data sources

The Treasury provided economic parameters as at the *2022 Pre-election Economic and Fiscal Outlook*.

The Treasury provided the modelling for the Coalition's commitment *COA 034 – Super Home Buyer Scheme and Downsizer Contributions*.

The Australian Taxation Office provided estimated departmental expenses for the Coalition's commitment *COA 034 – Super Home Buyer Scheme and Downsizer Contributions*.

The Treasury (2020) *Retirement Income Review, July 2020*, Australian Government, accessed 23 June 2022.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Super Home Buyer Scheme and Downsizer Contributions – financial implications

Table A1: Super Home Buyer Scheme and Downsizer Contributions – 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													
Tax revenue													
Super Home Buyer Scheme	-	*-10.0*	*-42.0*	*-66.0*	*-82.0*	*-100.0*	*-118.0*	*-135.0*	*-151.0*	*-165.0*	*-178.0*	***-118.0***	***-1,047.0***
Downsizer Contributions	-	*-3.0*	*-4.0*	*-6.0*	*-6.9*	*-7.8*	*-8.6*	*-9.1*	*-9.5*	*-9.7*	*-9.7*	***-13.0***	***-74.3***
Total – revenue	**-**	**-13.0**	**-46.0**	**-72.0**	**-88.9**	**-107.8**	**-126.6**	**-144.1**	**-160.5**	**-174.7**	**-187.7**	**-131.0**	**-1,121.3**
Expenses													
Departmental													
Australian Taxation Office	*-54.0*	*-93.0*	*-25.0*	*-20.0*	*-15.1*	*-15.2*	*-15.3*	*-15.4*	*-15.5*	*-15.6*	*-15.7*	***-192.0***	***-299.8***
Total – expenses	**-54.0**	**-93.0**	**-25.0**	**-20.0**	**-15.1**	**-15.2**	**-15.3**	**-15.4**	**-15.5**	**-15.6**	**-15.7**	**-192.0**	**-299.8**
Total (excluding PDI)	**-54.0**	**-106.0**	**-71.0**	**-92.0**	**-104.0**	**-123.0**	**-141.9**	**-159.5**	**-176.0**	**-190.3**	**-203.4**	**-323.0**	**-1,421.1**

(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: Super Home Buyer Scheme and Downsizer Contributions – 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**
Fiscal balance	-0.6	-2.4	-4.5	-6.5	-9.0	-12.1	-16.1	-21.1	-27.0	-34.1	-42.7	**-14.0**	**-176.1**
Underlying cash balance	-0.5	-2.2	-4.3	-6.2	-8.7	-11.7	-15.6	-20.5	-26.3	-33.3	-41.7	**-13.2**	**-171.0**

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables 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 glossary[2].

(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.

[2] Online budget glossary – Parliament of Australia (aph.gov.au)