Parliamentary
Budget Office

# Policy costing

| Superannuation reforms | |
|---|---|
| Party: | Australian Labor Party |

Summary of proposal:

The proposal would make the following amendments to superannuation.

- Component 1: Reduce the non-concessional contributions cap from $100,000 to $75,000 and index the cap as per current arrangements.
- Component 2: Reduce the Division 293 threshold from $250,000 to $200,000.
- Component 3: Individuals would no longer be able to carry forward the unused portion of the concessional superannuation contributions cap to future years.
- Component 4: Individuals who do not meet the 10 per cent income test for personal superannuation contributions (which applied prior to 1 July 2017) would no longer be able to claim a tax deduction for personal superannuation contributions.

Components 1 to 3 would commence on 1 July 2019.

Component 4 would commence on 1 July 2020.

## Costing overview

This proposal would be expected to increase the fiscal balance by $5,529 million and underlying cash balance by $5,429 million over the 2019-20 Budget forward estimates period. The fiscal balance impact reflects an increase in revenue of $5,550 million, partially offset by an increase in departmental expenses of $21 million over this period. The underlying cash balance impact reflects an increase in revenue of $5,450 million, partially offset by an increase in departmental expenses of $21 million over this period.

The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. The detailed financial implications over the period to 2029-30 are provided at Attachment A.

The fiscal balance impact of this proposal differs from the underlying cash balance impact as a result of the proposal to lower the Division 293 threshold. As the liability for the extra tax on contributions for some members of defined benefit superannuation schemes is deferred until a superannuation benefit is paid, the fiscal balance impact from these individuals occurs in the year in which the superannuation contributions are made, while the underlying cash balance impact is deferred until the actual payment date of the additional tax.

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

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | **Total to 2022–23** |
|---|---|---|---|---|---|
| Fiscal balance | 271 | 336 | 2,156 | 2,756 | **5,529** |
| Underlying cash balance | 271 | 336 | 2,156 | 2,656 | **5,429** |

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

(b) Figures may not sum to totals due to rounding.

The costing is subject to uncertainties surrounding income (particularly wages) and population growth, volatility in superannuation earnings, and behavioural responses to recent superannuation and personal income tax measures, which affect the baseline estimates for this costing. There is also uncertainty around how individuals would change their behaviour in response to the proposal.

## Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

### Savings

- Individuals would save the same amount of pre-tax income under the proposal as they would under current arrangements. There would be no material change in household consumption.
  - Where individuals are unable to save as much in superannuation they would save this amount outside superannuation.
    - Superannuation contributions diverted to alternative savings, and the earnings on these savings, are taxed at average marginal tax rates.
    - Post-tax savings are lower under the proposal due to the higher tax treatment of savings outside of superannuation.
- Pre-tax investment returns are the same for assets held inside and outside the superannuation system.

### Flow-on effects on the Age Pension

- There would be no flow-on effects to outlays on the Age Pension over the period to 2029-30.
  - The reduction in post-tax savings may result in increased reliance on the Age Pension, but the impact of this over the period to 2029-30 is likely to be small and has not been included in the costing. Beyond this period, there may be a more significant impact on Age Pension outlays.

### Behavioural responses

- Component 1: A bring-forward of non-concessional contributions from 2019-20 to 2018-19 would not have a material impact on the costing.
- Component 2: Individuals with income[1] between the proposed Division 293 threshold ($200,000) and the current threshold ($250,000) would reduce their voluntary concessional contributions by 10 per cent, since the proposal would make superannuation less concessional for these people.
  - In the absence of this behavioural response, the financial implications of this component would be expected to be around 7 per cent lower over the period to 2029-30.
- Component 3: Individuals who made superannuation contributions up to the concessional contributions cap in 2016-17 (the base year of data), but with space in their cap over a five-year period, would have increased their concessional contributions if catch-up contributions had been allowed in 2016-17.
  - This behavioural adjustment to the base data was necessary because catch-up concessional contributions were not allowed until 2018-19.
  - A bring-forward of concessional contributions from 2019-20 to 2018-19 would not have a material impact on the costing.
- Component 4: Some individuals who had no access to voluntary contributions in 2016-17 would have made deductible personal superannuation contributions had these been allowed in 2016-17.
  - An amount was imputed based on the behaviour of similar individuals who had access to voluntary superannuation contributions in 2016-17.
  - This behavioural adjustment to the base data was necessary because deductible personal superannuation contributions for all individuals up to the age of 75 were not allowed until 2017-18.
  - A bring-forward of voluntary contributions from 2020-21 to 2019-20 would not have a material impact on the costing.

## Methodology

- The modelling is based on de-identified personal income tax and superannuation returns for 2016-17, supplemented by pay-as-you-go payment summaries.
- Revenue was projected for each year over the period to 2029-30 under a baseline scenario, under each component, and under the entire package.
  - Each component's budgetary implications were calculated relative to the baseline scenario.
  - The budgetary implications of the entire package are not equal to the sum of the individual components due to interactions between particular components.
- Behavioural responses were incorporated, reflecting the assumptions above.
- Departmental expense estimates are based on past departmental expenses for policies with similar administrative complexity.
- The modelling has taken into account the timing of tax collections.

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[1] Income for the purpose of the Division 293 tax includes taxable income, reportable fringe benefits, reportable superannuation contributions, net financial investment losses, and net rental property losses.

- Estimates of revenue for Components 2, 3 and 4 have been rounded to the nearest $100 million. Estimates of revenue for Component 1 and the interactions between the components have been rounded to the nearest $10 million. Estimates of departmental expenses have been rounded to the nearest $1 million.

## Data sources

The Australian Taxation Office provided:

- a de-identified 16 per cent sample of personal income tax and superannuation returns from the 2016-17 tax year
- pay-as-you-go payment summaries for 2016-17.

Treasury provided economic forecasts for personal income and superannuation tax as at the 2019 Pre-election Economic and Fiscal Outlook.

# Attachment A – Superannuation reforms – financial implications

## Table A1: Superannuation reforms – Fiscal balance ($m)[(a)(b)]

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | Total to 2022–23 | Total to 2029–30 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | | | | |
| *Component 1: Reduce non-concessional contributions cap* | *-10* | *..* | *40* | *80* | *120* | *160* | *200* | *250* | *310* | *380* | *450* | ***120*** | ***2,000*** |
| *Component 2: Reduce Division 293 threshold* | *..* | *400* | *800* | *1,000* | *1,100* | *1,200* | *1,400* | *1,500* | *1,700* | *1,900* | *2,100* | ***2,200*** | ***13,200*** |
| *Component 3: No carry-forward of concessional contributions* | *300* | *500* | *700* | *900* | *1,000* | *1,000* | *1,000* | *1,100* | *1,200* | *1,300* | *1,400* | ***2,400*** | ***10,400*** |
| *Component 4: No tax deductions for personal superannuation contributions* | *-* | *-400* | *800* | *1,000* | *800* | *900* | *800* | *800* | *800* | *900* | *900* | ***1,400*** | ***7,300*** |
| *Interactions* | *-10* | *-160* | *-180* | *-220* | *-230* | *-230* | *-230* | *-250* | *-240* | *-260* | *-290* | ***-570*** | ***-2,300*** |
| **Total – revenue** | **280** | **340** | **2,160** | **2,760** | **2,790** | **3,030** | **3,170** | **3,400** | **3,770** | **4,220** | **4,560** | **5,550** | **30,600** |
| **Expenses** | | | | | | | | | | | | | |
| *Departmental* | | | | | | | | | | | | | |
| *Component 2: Reduce Division 293 threshold* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | ***-16*** | ***-44*** |
| *Component 3: No carry-forward of concessional contributions* | *-5* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | ***-5*** | ***-5*** |
| **Total – expenses** | **-9** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-21** | **-49** |
| **Total** | **271** | **336** | **2,156** | **2,756** | **2,786** | **3,026** | **3,166** | **3,396** | **3,766** | **4,216** | **4,556** | **5,529** | **30,551** |

(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.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

\- Indicates nil.

## Table A2: Superannuation reforms – Underlying cash balance ($m)[a][b]

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | Total to 2022–23 | Total to 2029–30 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Receipts** | | | | | | | | | | | | | |
| *Component 1: Reduce non-concessional contributions cap* | *-10* | *..* | *40* | *80* | *120* | *160* | *200* | *250* | *310* | *380* | *450* | ***120*** | ***2,000*** |
| *Component 2: Reduce Division 293 threshold* | *..* | *400* | *800* | *900* | *1,000* | *1,200* | *1,300* | *1,400* | *1,600* | *1,800* | *2,000* | ***2,100*** | ***12,400*** |
| *Component 3: No carry-forward of concessional contributions* | *300* | *500* | *700* | *900* | *1,000* | *1,000* | *1,000* | *1,100* | *1,200* | *1,300* | *1,400* | ***2,400*** | ***10,400*** |
| *Component 4: No tax deductions for personal superannuation contributions* | *-* | *-400* | *800* | *1,000* | *800* | *900* | *800* | *800* | *800* | *900* | *900* | ***1,400*** | ***7,300*** |
| *Interactions* | *-10* | *-160* | *-180* | *-220* | *-230* | *-230* | *-230* | *-250* | *-240* | *-260* | *-290* | ***-570*** | ***-2,300*** |
| **Total – receipts** | **280** | **340** | **2,160** | **2,660** | **2,690** | **3,030** | **3,070** | **3,300** | **3,670** | **4,120** | **4,460** | **5,450** | **29,800** |
| **Payments** | | | | | | | | | | | | | |
| *Departmental* | | | | | | | | | | | | | |
| *Component 2: Reduce Division 293 threshold* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | *-4* | ***-16*** | ***-44*** |
| *Component 3: No carry-forward of concessional contributions* | *-5* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | *-* | ***-5*** | ***-5*** |
| **Total – payments** | **-9** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-4** | **-21** | **-49** |
| **Total** | **271** | **336** | **2,156** | **2,656** | **2,686** | **3,026** | **3,066** | **3,296** | **3,666** | **4,116** | **4,456** | **5,429** | **29,751** |

(a) 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.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

\- Indicates nil.