



Policy costing

Change superannuation taxation arrangements and double the low income superannuation tax offset

Party: Australian Greens

Summary of proposal:

This proposal has three components.

- Component 1: Increase the low income superannuation tax offset from 15 cents per dollar to 30 cents per dollar, up from a maximum of \$500 to \$1,000 annually.
- Component 2: Reduce the Division 293 threshold from \$250,000 to \$180,000.
- Component 3: Abolish the \$450 superannuation guarantee monthly earnings threshold.

This proposal would have effect from 1 July 2019.

Costing overview

The proposal would be expected to increase the fiscal balance by \$252 million and the underlying cash balance by \$1,012 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis, this impact reflects an increase in revenue of \$3,590 million, offset by an increase in administered expenses of \$3,310 million and an increase in departmental expenses of \$28 million over this period. On an underlying cash balance basis, this impact reflects an increase in receipts of \$3,390 million, offset by an increase in administered payments of \$2,350 million and an increase in departmental payments of \$28 million over this period.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-717	-237	453	643	252
Underlying cash balance	83	-117	363	643	1,012

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

The fiscal balance impact of the proposal differs from the underlying cash balance for each of the three components.

- Both the increase in the low income superannuation tax offset and the abolition of the \$450 superannuation guarantee monthly earnings threshold would lead to an increase in payments of the low income superannuation tax offset. For the payment of the additional tax offset, the fiscal balance impact occurs in the year in which the superannuation contributions are made, while the underlying cash balance impact occurs in the year in which cash payments are made.
- For the reduction of the Division 293 threshold, the liability for the extra tax on contributions for some members of defined benefit superannuation schemes is deferred until a superannuation benefit is paid. As such, the fiscal balance impact 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.

This 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.
 - Post-tax savings would differ under the proposal due to changes in savings inside and outside of superannuation, and changes in superannuation taxation.
- 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 changes in post-tax savings may result in a change in reliance on the age pension for some individuals, 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: Individuals eligible for the low income superannuation offset would not increase their contributions in response to this component.

- Component 2: Individuals with income¹ between the proposed Division 293 threshold (\$180,000) 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 become eligible for superannuation guarantee as a result of this proposal would not adjust their working hours, nor would they make changes to their voluntary superannuation contributions.

Component 3: Abolish the superannuation guarantee monthly earnings threshold

- Earnings that are currently below the superannuation guarantee monthly earnings threshold of \$450 a month are estimated from annual payment summaries.
 - Monthly data on earnings subject to the threshold are not available.
 - Earnings of affected individuals are constant over the period covered by payment summaries.
- Employers of around 40 per cent of affected low-income employees are already making superannuation guarantee payments to these employees (even though these are not compulsory).
 - This was informed by an analysis of the employer superannuation contributions for individuals with a single job.
- Employers would bear the incidence of the additional superannuation guarantee payments.
 - The scope to reduce wages to offset higher superannuation guarantee payments would be limited, as a significant proportion of the affected employees would be receiving minimum or award wages.
 - This would lead to a decrease in employer taxable income (via increased deductions), and therefore a decrease in company tax receipts.
 - 80 per cent of affected employers have sufficient taxable income to use the increased tax deductions.
- All additional contributions tax paid by individuals who would become eligible for the superannuation guarantee would be refunded through the low income superannuation tax offset payments.
 - As such, Component 3 interacts with Component 1, as the low income superannuation tax offset would double.
- There would be no material additional compliance costs on employers and superannuation funds as a result of the proposal.

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.

Methodology

- For Components 1 and 2, 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 and expenses were projected for each year over the period to 2029-30 under a baseline scenario, and under each component.
- For Component 3, the financial implications were estimated by calculating the expected change in the amount of company tax paid by affected businesses as a result of higher deductions for superannuation payments (after accounting for the assumed proportion who would be unable to use the increased deductions), the additional amount of low income superannuation tax offset that would be paid, and the increase in superannuation earnings tax.
 - The total salary and wages affected by the extension of the superannuation guarantee were estimated using pay-as-you-go payment summary data.
- Behavioural responses were incorporated, reflecting the assumptions above.
- Departmental expense estimates were based on past departmental expenses for policies with similar administrative complexity.
- The modelling has taken into account the timing of tax collections.
- Estimates of revenue and administered expenses for all components and interactions have been rounded to the nearest \$10 million, excluding Component 2 which has been rounded to the nearest \$100 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
- superannuation member contribution statements, self-managed superannuation fund returns and pay-as-you-go payment summaries for 2015-16 and 2016-17.

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

Attachment A – Change superannuation taxation arrangements and double the low income superannuation tax offset – financial implications

Table A1: Change superannuation taxation arrangements and double the low income superannuation tax offset – 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													
<i>Component 1: Increase the low income superannuation tax offset</i>	-	10	20	20	30	40	50	60	70	80	90	50	460
<i>Component 2: Reduce the Division 293 tax threshold</i>	100	600	1,300	1,500	1,800	2,000	2,200	2,500	2,800	3,100	3,500	3,600	21,200
<i>Component 3: Abolish the Superannuation Guarantee monthly earnings threshold</i>	-10	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-60	-180
Total – revenue	90	590	1,300	1,500	1,810	2,020	2,230	2,540	2,850	3,160	3,570	3,590	21,480
Expenses													
<i>Administered</i>													
<i>Component 1: Increase the low income superannuation tax offset</i>	-760	-760	-780	-790	-790	-780	-770	-740	-700	-670	-640	-3,090	-8,180
<i>Component 3: Abolish the Superannuation Guarantee monthly earnings threshold</i>	-20	-30	-30	-30	-30	-30	-30	-30	-30	-30	-30	-110	-330
<i>Interactions (Components 1 and 3)</i>	-20	-30	-30	-30	-30	-30	-30	-30	-30	-30	-30	-110	-330
Total – administered	-800	-820	-840	-850	-850	-840	-830	-800	-760	-730	-700	-3,310	-8,840
<i>Departmental</i>													
<i>Component 2: Reduce the Division 293 tax threshold</i>	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-16	-44
<i>Component 3: Abolish the Superannuation Guarantee monthly earnings threshold</i>	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-12	-33
Total – departmental	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-28	-77
Total – expenses	-807	-827	-847	-857	-857	-847	-837	-807	-767	-737	-707	-3,338	-8,917
Total	-717	-237	453	643	953	1,173	1,393	1,733	2,083	2,423	2,863	252	12,563

(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.

- Indicates nil.

Table A2: Change superannuation taxation arrangements and double the low income superannuation tax offset – 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													
<i>Component 1: Increase the low income superannuation tax offset</i>	-	10	20	20	30	40	50	60	70	80	90	50	460
<i>Component 2: Reduce the Division 293 tax threshold</i>	100	600	1,200	1,500	1,700	1,800	2,100	2,300	2,600	2,900	3,200	3,400	19,900
<i>Component 3: Abolish the Superannuation Guarantee monthly earnings threshold</i>	-10	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-60	-180
Total – receipts	90	590	1,200	1,500	1,710	1,820	2,130	2,340	2,650	2,960	3,270	3,390	20,180
Payments													
<i>Administered</i>													
<i>Component 1: Increase the low income superannuation tax offset</i>	-	-660	-770	-790	-790	-790	-780	-780	-750	-700	-670	-2,210	-7,470
<i>Component 3: Abolish the Superannuation Guarantee monthly earnings threshold</i>	-	-20	-30	-30	-30	-30	-30	-30	-30	-30	-30	-70	-270
<i>Interactions (Components 1 and 3)</i>	-	-20	-30	-30	-30	-30	-30	-30	-30	-30	-30	-70	-270
Total – administered	-	-700	-830	-850	-850	-850	-840	-840	-810	-760	-730	-2,350	-8,010
<i>Departmental</i>													
<i>Component 2: Reduce the Division 293 tax threshold</i>	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-16	-44
<i>Component 3: Abolish the Superannuation Guarantee monthly earnings threshold</i>	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-12	-33
Total – departmental	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-28	-77
Total – payments	-7	-707	-837	-857	-857	-857	-847	-847	-817	-767	-737	-2,378	-8,087
Total	83	-117	363	643	853	963	1,283	1,493	1,833	2,193	2,533	1,012	12,093

- (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.
- Indicates nil.