Parliament of Australia
Parliamentary Budget Office

Policy costing—outside the caretaker period

Name of proposal:	**Savings account**
Summary of proposal:	This proposal has three components. <u>Component 1: Superannuation tax structure</u> This component would alter the taxation of superannuation by: • making contributions to, and earnings in, superannuation accounts tax free • making all withdrawals from superannuation accounts taxable at the individual's marginal income tax rate – A tax credit would be available to offset tax on withdrawals equal to the value of tax previously paid on contributions and earnings. • removing all caps that currently apply to superannuation contributions. <u>Component 2: Tax-free withdrawals from superannuation</u> This component would also allow pre-retirement access, and tax-free withdrawals, for: • medical expenses, including goods and services currently subsidised by the Government, goods and services provided in private hospitals that are also provided in public hospitals, and health insurance premiums currently covered by the Private Health Insurance rebate • unemployed or disabled individuals, up to the level of the median wage per unemployed or disabled person • income insurance premiums where an account holder or their dependants are unemployed or disabled, up to the greater of the person's previous income and the median wage. <u>Component 3: Government payment changes</u> This component would cease payments of Youth Allowance (Job Seeker), Newstart Allowance, and the Disability Support Pension, for recipients with a positive superannuation balance.

	This proposal would have effect from 1 July 2017.
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	☒ Yes ☐ No
Date costing request received:	9 August 2016
Date costing completed:	21 April 2017
Additional information requested (including date):	On 7 December 2016, the Parliamentary Budget Office (PBO) sought clarification of the tax treatment of superannuation under the proposal from the office of Senator David Leyonhjelm (the office).
Additional information received (including date):	On 7 December 2016, the office confirmed the policy specification outlined above.
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

This proposal would be expected to decrease the fiscal and underlying cash balances by $33,330 million over the 2016-17 Budget forward estimates period. This impact reflects a net decrease in revenue of $66,300 million and a net increase in departmental expenses of $30 million, partially offset by a net decrease in administered expenses of $33,000 million over this period.

This proposal would be expected to have an ongoing impact that would continue to increase beyond the 2016-17 Budget forward estimates period.

- The cost to revenue of Component 1 (superannuation tax structure) would increase beyond the forward estimates period, reflecting:
  - the growth of superannuation (contribution and earning) taxes in the baseline
  - forgone personal tax revenue (due to the abolition of contribution caps).

  The offsetting net increase in withdrawal taxes would be relatively small, reflecting:
  - the credit provided for past superannuation taxes
  - the relatively low marginal tax of retirees.
- The cost to revenue of Component 2 (tax-free withdrawals from superannuation) reflects the loss of revenue that would be collected under current arrangements on pre-retirement superannuation drawdowns and is expected to grow in line with the level of superannuation assets under current arrangements.

~~Sensitive~~

- The reduction in expenses from Component 3 (Government payment changes) would peak in 2017-18, as current recipients of these payments draw down on their existing superannuation balances. The saving from this component would decline in subsequent years as superannuation balances of current payment recipients are depleted, reaching maturity in 2021-22.

The detailed financial implications of the proposal over the period to 2026-27 are presented at Attachment A.

The proposal would involve departmental expenses of $20 million in 2017-18 and $10 million in 2018-19 reflecting systems changes and information campaigns by the Australian Taxation Office (ATO) and the Department of Human Services (DHS). The proposal is not expected to have a material ongoing impact on departmental expenses.

There is substantial uncertainty around the estimated financial impact of this proposal. The estimates are sensitive to changes in a number of assumptions, including the magnitude and timing of behavioural responses (particularly in response to the abolition of contribution caps), the extent of superannuation tax-free withdrawals under the proposal and the level of superannuation assets of certain Government payment recipients.

Table 1: Financial implications (outturn prices)[(a)(b)]

Impact on ($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**
Fiscal balance	-	-4,420	-11,910	-17,000	**-33,330**
Underlying cash balance	-	-4,420	-11,910	-17,000	**-33,330**

(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.
- Indicates nil.

Key assumptions

Component 1: Superannuation tax structure

- The amount of contributions and earnings tax previously paid and available to be used as a tax credit is based on the effective superannuation tax rate after offsets, including franking credits.
- Individuals are assumed to contribute more to superannuation in the absence of the caps on contributions.
- The proportion of withdrawals that are eligible for a tax credit is assumed to fall as the policy approaches maturity.
- The average marginal tax rate for future superannuation withdrawals is equal to the current average marginal personal income tax rate for individuals aged 65 and over.

Component 2: Tax-free withdrawals from superannuation

- Superannuation withdrawals by those under preservation age, other than those due to permanent departure from Australia, are assumed to be eligible for tax-free withdrawals under this component.
- While there are potential interactions between Components 1 and 2, they are not expected to be material to the overall costing.

Component 3: Government payment changes

- Government payment recipients affected by this proposal are assumed to draw down on their superannuation assets to maintain at least the same level of disposable income as they would have received under the relevant Government payment.
- This response does not account for the potential broader macroeconomic implications of this proposal. In particular, the costing does not take into account any change in the labour supply in response to the proposal to restrict certain Government payments to individuals with no superannuation balances.

Methodology

Component 1: Superannuation tax structure

- The net cost of this component is equal to the amount of revenue under the proposed policy after allowing for the assumed behavioural response, less revenue under current policy settings.
- The level of withdrawals from superannuation funds was estimated based on personal income tax and superannuation return data.

Component 2: Tax-free withdrawals from superannuation

- The cost of this proposal is equal to the revenue forgone on superannuation withdrawals that are currently subject to tax that would be tax-free under this component.

Component 3: Government payment changes

- The total value of Youth Allowance (Job Seeker), Newstart Allowance, and the Disability Support Pension are taken from the Department of Social Services (DSS) Portfolio Budget Statements over the 2016-17 Budget forward estimates. Medium term estimates for these payments were estimated using the methodology set out in PBO Report 02/2015 (*2015-16 Budget: medium-term* projections).
- Information on payment duration of affected individuals was obtained from DSS Payment Demographic Data.

- Superannuation balance amounts and wage and salary information for affected individuals are derived from personal income tax returns.
- Information on the tax liability of certain Government payment recipients was obtained by using the Policy Evaluation Model (PoEM) of the Australian personal income tax and transfer system, a micro-simulation model based on Australian Government administrative data updated for population projections and other parameters as at the 2016-17 Mid-Year Economic and Fiscal Outlook.

General methodology

- 2013-14 superannuation balances are grown in line with the growth in superannuation assets in the budget baseline and 2015 Intergenerational Report.
- This costing takes account of the timing of tax collections.
- Departmental expenses were estimated based on an analysis of previous systems changes and information campaigns.
- Estimates of revenue from Component 1 have been rounded to the nearest $1 billion.
- Estimates of revenue from Component 2 have been rounded to the nearest $100 million.
- Estimates of administered expenses have been rounded to the nearest $500 million.
- Departmental expenses have been rounded to the nearest $10 million.

Data sources

- The ATO provided de-identified 2013-14 personal income tax and superannuation return data.
- ATO, 2013-14 Taxation Statistics.
- Superannuation contributions and earnings tax revenue as at the 2016-17 Mid-Year Economic and Fiscal Outlook.
- The DSS provided the Policy Evaluation Model.
- The Treasury, 2015 Intergenerational Report, Australia.
- DSS, Payment Demographic Data September 2016, Australia.
- DSS, Portfolio Budget Statements 2016-17.

Attachment A – Savings account—financial implications

Table A1: Savings account—Financial implications (outturn prices)[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	**Total to 2026–27**
Revenue	-	*-19,400*	*-22,400*	*-24,500*	***-66,300***	*-25,500*	*-27,500*	*-28,600*	*-30,600*	*-32,600*	*-35,700*	*-37,700*	***-284,500***
Administered expenses - DSS	-	*15,000*	*10,500*	*7,500*	***33,000***	*6,000*	*5,000*	*5,500*	*5,500*	*6,000*	*6,000*	*6,500*	***73,500***
Departmental expenses - ATO	-	*-10*	..	..	***-10***	..	..	..	..	..	..	..	***-10***
Departmental expenses - DHS	-	*-10*	*-10*	..	***-20***	..	..	..	..	..	..	..	***-20***
Total	**-**	**-4,420**	**-11,910**	**-17,000**	**-33,330**	**-19,500**	**-22,500**	**-23,100**	**-25,100**	**-26,600**	**-29,700**	**-31,200**	**-211,030**

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

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

.. Not zero but rounded to zero.

\- Indicates nil.

Table A2: Savings account – Component 1 (Superannuation tax structure)—Financial implications (outturn prices)[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Revenue	-	*-19,000*	*-22,000*	*-24,000*	***-65,000***	*-25,000*	*-27,000*	*-28,000*	*-30,000*	*-32,000*	*-35,000*	*-37,000*	***-279,000***
Departmental expenses - ATO	-	*-10*	..	..	***-10***	..	..	..	..	..	..	..	***-10***
Total	**-**	**-19,010**	**-22,000**	**-24,000**	**-65,010**	**-25,000**	**-27,000**	**-28,000**	**-30,000**	**-32,000**	**-35,000**	**-37,000**	**-279,010**

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.
(b) Figures may not sum to totals due to rounding.
.. Not zero but rounded to zero.
- Indicates nil.

Table A3: Savings account – Component 2 (Tax-free withdrawals from superannuation)—Financial implications (outturn prices)[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Revenue	-	*-400*	*-400*	*-500*	***-1,300***	*-500*	*-500*	*-600*	*-600*	*-600*	*-700*	*-700*	***-5,500***
Total	**-**	**-400**	**-400**	**-500**	**-1,300**	**-500**	**-500**	**-600**	**-600**	**-600**	**-700**	**-700**	**-5,500**

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.
(b) Figures may not sum to totals due to rounding.
- Indicates nil.

Table A4: Savings account – Component 3 (Government payment changes)—Financial implications (outturn prices)[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	**Total to 2026–27**
Administered expenses - DSS	-	*15,000*	*10,500*	*7,500*	***33,000***	*6,000*	*5,000*	*5,500*	*5,500*	*6,000*	*6,000*	*6,500*	***73,500***
Departmental expenses - DHS	-	*-10*	*-10*	..	***-20***	..	..	..	..	..	..	..	***-20***
Total	**-**	**14,990**	**10,490**	**7,500**	**32,980**	**6,000**	**5,000**	**5,500**	**5,500**	**6,000**	**6,000**	**6,500**	**73,480**

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.
(b) Figures may not sum to totals due to rounding.
.. Not zero but rounded to zero.
\- Indicates nil.