Parliament of Australia
Parliamentary Budget Office

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Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *A progressive superannuation system* (letter of 23 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen
24 June 2016

Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	A progressive superannuation system
Summary of proposal:	The proposal would apply progressive tax rates on superannuation contributions with a 15 per cent co-contribution for those with total income less than the tax-free threshold (currently $18,200). The full detail of the proposal is provided at Attachment A. The proposal would have effect from 1 July 2016.
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	1 June 2016 http://greens.org.au/progressive-superannuation
Date costing request received:	23 June 2016
Date costing completed	24 June 2016
Additional information received (including date):	On 23 June 2016, the office of Senator Di Natale advised that the: • start date would be 1 July 2016 • changes would not apply to members of unfunded defined benefits superannuation schemes • income definitions would be as set out in Attachment A.
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to increase the fiscal balance by $10,850 million and increase the underlying cash balance by $11,070 million over the 2016-17 Budget forward estimates period. On a fiscal balance basis, the impact reflects an increase in revenue of $10,100 million, a decrease in administered expenditure of $850 million and an increase in departmental expenditure of $100 million over this period.

The fiscal balance impact of this proposal differs from the underlying cash balance impact due to differences in the timing of accrual and payment of the following tax liabilities/rebates:

- The introduction of the Government superannuation contribution for individuals with total income below $18,200.
- The abolition of the low income superannuation contribution (LISC).
- The abolition of the Division 293 tax on superannuation contributions for high income individuals.
- The reversal of the 2016-17 Budget measure, *Superannuation Reform Package - introducing a Low Income Superannuation Tax Offset (LISTO)*.

The fiscal balance impact of the proposal falls in 2017-18, primarily reflecting the abolition of both the LISC and the LISTO.

The proposal would be expected to increase superannuation contributions tax and personal income tax.

- The introduction of a progressive superannuation contributions tax would be expected to result in an increase in superannuation contributions tax revenue as the majority of concessional contributions would be taxed at a higher or equal rate.
- This would also be expected to increase taxable incomes due to a reduction in voluntary concessional contributions, resulting in increased collections from personal income tax (and less earnings tax in the accumulation phase).

This costing is considered to be of low to medium reliability. The costing is largely based on detailed administrative data, but is sensitive to behavioural responses which are uncertain.

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

Impact on ($m)	2016–17	2017–18	2018–19	2019–20	**Total**
Fiscal balance	3,080.0	2,450.0	2,640.0	2,680.0	**10,850.0**
Underlying cash balance	2,430.0	2,970.0	2,820.0	2,850.0	**11,070.0**

(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.

Estimates of the detailed financial implications of the individual components are provided at <u>Attachment B</u>.

Key assumptions

- It is assumed that individuals with taxable income and concessional superannuation contributions between $150,000 and the Division 293 threshold ($300,000 in 2016-17; $250,000 thereafter) would respond to the policy by reducing their voluntary concessional superannuation contributions, as the proposal makes superannuation less concessional for these people.
  - While concessional superannuation would still provide a tax concession for these individuals, this would be balanced against the fact that money contributed to superannuation is not readily accessible.
  - The reduction in concessional superannuation contributions is assumed to result in increased taxable incomes of individuals. However, taxable incomes would not increase by the full amount of the reduction in concessional superannuation contributions due to the ability of some taxpayers to utilise other tax concessions.
  - Those with income above the Division 293 threshold currently face an effective tax rate of 30 per cent on their concessional superannuation contributions, and would have a relatively small change (2 percentage points) to their effective tax rate. They would not be expected to have a significant behavioural change in response to the proposed policy.
- It is assumed that superannuation funds would pay contributions tax instalments at a rate based on expected annual income of their members. Reconciliation would be required following tax assessment to ensure the correct amount of tax had been paid. Depending on the administrative method used to assess annual income, there may be timing differences in the collection of tax revenue over the forward estimates.
  - For the purposes of this costing, it is assumed that, on average, the monthly instalments would collect the correct amount of tax. That is, the reconciliation would have zero revenue impact.
- It is assumed that the proposed superannuation contribution for individuals with total income below the tax-free threshold (in place of the LISC/LISTO) would not result in material behavioural change.
- Income for the purposes of the progressive contributions tax would be the sum of an individual's taxable income and their concessional superannuation contributions.
  - If an individual has a taxable income below a threshold but adding concessional superannuation contributions takes them above a threshold, the higher contributions tax rate would only apply to the contributions above the threshold. This approach is consistent with the current operation of the Division 293 tax.
  - For example:
    - An individual with a taxable income of $34,000 and concessional superannuation contributions of $3,400 (that is a total of $37,400) would pay a tax rate of 15 per cent on $400 ($37,400 less the $37,000 threshold). This would result in a progressive contributions tax liability of $60.

- An individual with a taxable income of $140,000 and concessional superannuation contributions of $15,000 (that is a total of $155,000) would pay a tax rate of 22 per cent on $10,000 (the $150,000 threshold less $140,000) of their contributions and a tax rate of 32 per cent on the remaining $5,000 ($155,000 less the $150,000 threshold). This would result in a progressive contributions tax liability of $3,800.

- The enabling legislation would be implemented before 1 July 2017 (the date from which tax returns for the 2016-17 financial year can be submitted to the Australian Taxation Office (ATO)).
- It is assumed that there would not be any labour supply response as a result of the proposal.
- While the proposal could be expected to result in an increase in Age Pension payments over the longer term, the proposal is assumed not to have a material impact on Age Pension payments over the 2016-17 Budget forward estimates period.

Methodology

- A de-identified 16 per cent sample of personal income and superannuation tax returns from the 2012-13 tax year is used to estimate the budget impact of the contributions tax and personal income tax components of this costing. Outcomes are estimated for each individual in the data under both current and proposed policy.
- The modelling takes account of the timing of tax collections and payments.
- Estimates of the revenue impact are rounded to the nearest $50 million, administrative expense estimates to the nearest $10 million, and departmental expenses to the nearest $1 million.

Data sources

- ATO de-identified personal income tax records, superannuation member contribution statements and self-managed superannuation fund returns from 2012-13.
- 2016-17 Budget measure, *Superannuation Reform Package – introducing a Low Income Superannuation Tax Offset (LISTO).*

Attachment A: Detailed policy specifications

The proposal would replace the current 15 per cent flat tax rate on concessional superannuation contributions with a progressive marginal tax rate as follows:

Income threshold [(a)] ($)	Superannuation contributions tax rate (%)
0 – 37,000	0
37,001 – 100,000	15
100,001 – 150,000	22
150,001 onwards	32

(a) Income thresholds would be indexed annually in line with growth in average weekly ordinary time earnings. The income to determine contributions tax would be the sum of taxable income and concessional superannuation contributions.

In addition:

- the Government would contribute to superannuation funds on behalf of individuals with total income below the tax-free threshold ($18,200). The Government contribution would be 15 cents for each dollar of concessional superannuation contributions
  - Total income would consist of assessable income, net investment losses, exempt foreign employment income, reportable superannuation contributions and reportable fringe benefits.
  - Net (rather than gross) business and investment income would also be included in the calculation of total income.
- the Division 293 tax on contributions for very high income earners would be abolished
- the LISC would be abolished (currently set to end after the 2016-17 financial year)
- the 2016-17 Budget measure, *Superannuation Reform Package - introducing a Low Income Superannuation Tax Offset (LISTO)* would be reversed
- the changes would not apply to members of unfunded defined benefits funds.

Attachment B: A progressive superannuation system — financial implications

Table B1: A progressive superannuation system - Fiscal balance[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**
Revenue	2,450.0	2,400.0	2,600.0	2,650.0	**10,100.0**
Expenses	630.0	50.0	40.0	30.0	**750.0**
Administered expenses – ATO	*650.0*	*70.0*	*70.0*	*60.0*	***850.0***
Departmental expenses – ATO	*-20.0*	*-20.0*	*-30.0*	*-30.0*	***-100.0***
Total	**3,080.0**	**2,450.0**	**2,640.0**	**2,680.0**	**10,850.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses in accrual terms. A negative number for the fiscal balance indicates an increase in expenses in accrual terms.

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

Table B2: A progressive superannuation system - Underlying cash balance[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**
Receipts	2,450.0	2,450.0	2,700.0	2,800.0	**10,400.0**
Payments	-20.0	520.0	120.0	50.0	**670.0**
Administered expenses – ATO	-	*540.0*	*150.0*	*80.0*	***770.0***
Departmental expenses – ATO	*-20.0*	*-20.0*	*-30.0*	*-30.0*	***-100.0***
Total	**2,430.0**	**2,970.0**	**2,820.0**	**2,850.0**	**11,070.0**

(a) A positive number for the underlying cash balance indicates an increase in revenue or a decrease in expenses in cash terms. A negative number for the underlying cash balance indicates an increase in outlays in cash terms.

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