GRATTAN Institute

Forward Thinking – *Targeting the tax breaks for superannuation*
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The numbers for superannuation tax breaks are dizzying. They cost the Commonwealth budget somewhere between $20 billion and $30 billion a year depending on how you count them. Grattan Institute's work in *Balancing Budgets* suggested specific reforms that could save up to $8 billion a year. A forthcoming Grattan Institute publication will work through the options in detail. Meanwhile, superannuation tax breaks are in the news. After being ruled out by the Abbott government, they are back on the table in tax reform discussions being led by the Turnbull government. There are any number of competing proposals for change – including many from the industry itself.

In this *Forward Thinking* event at the State Library of NSW, Danielle Wood and Brendan Coates from Grattan Institute discussed the issues with Joanna Mather, who covers tax and superannuation for the *Australian Financial Review*. What is the purpose of superannuation tax breaks? What criteria should be used in analysing competing proposals for change? What changes would minimise the economic impacts, improve budget balances, be fair, and remain administratively workable?

Speakers: Joanna Mather, Australian Financial Review
Danielle Wood, Fellow, Grattan Institute
Brendan Coates, Senior Associate, Grattan Institute

DANIELLE WOOD: Thank you everyone very much for coming, very much my type of people that come out on a Thursday night in December to hear a talk on superannuation tax concessions, so thank you. Thank you also to the State Library for hosting us tonight as well as hosting a number of *Policy Pitch* events for Grattan throughout the year. For those that don't know me, my name is Danielle Wood. I'm a Fellow with the Budget Policy Program at the Grattan Institute, so I work with John Daley, our CEO, mainly looking at tax and budget issues.

I'm joined tonight by my colleague on Brendan Coates who is a Senior Associate at the Institute. He's been working with us in the Budget Policy team and he was absolutely instrumental in preparing our most recent report on superannuation tax targeting that we're going to be talking about tonight. And if you have a particular interest in this area I would recommend it, I think it's a very comprehensive take on how the tax concessions work, how they're distributed both by age and income, and why we think there is a real case for policy change. Prior to working at Grattan, Brendan worked with the World Bank in Indonesia and he also had a number of roles at the Australian Treasury, so he brings a whole host of macroeconomic policy skills to the table. Any of you that might have seen some of the earlier emails advertising this event will know that Brendan and I are filling in for John our CEO and we hope that at least jointly we can bring the level of enthusiasm that John always brings to this particular topic.

Joining us tonight and asking the touch questions is Joanna Mather. Joanna covers national affairs for the Australian Financial Reviews and works out of the newspaper's Canberra bureau. Her recent focus is on tax, superannuation and industrial relations, and certainly as someone that has a particular interest in the first two of those I can say that Joanna is someone that's really across the detail and her articles are always really good to read. So prior to finding her love for economic policy, Joanna spent several years writing about education and in 2013 she was named the Higher Education Journalist of the Year by Universities Australia and the National Press Club.

The format for tonight is essentially we're going to do a bit of a Q&A for about 40-45 minutes or so, so Joanna will fire some questions at us. We're then going to open it up for questions from the audience. We've had quite a number of questions pre-submitted and they were all really excellent, so I suspect that we're going to pick a lot of those up as we go in the Q&A, but if you submitted a question and you'd like more detail then obviously feel free to put it again when we get to that point. Or if you didn't pre-submit a question and something arises as we go through then obviously feel free to ask it as well. With that I'll hand over to Joanna to start the Q&A session and to moderate the rest of the evening.

JOANNA MATHER: Many thanks. If you cast your mind back less than six months, Tony Abbott had completely ruled out any changes. Obviously a lot's changed since then and there's almost an air of inevitability of change in this area. Scott Morrison has talked a lot about wanting people to run down their super balances and he's going to legislate the purpose of super, which will probably start from the point that it should reduce reliance on the age pension. So Danielle, does that resonate with what you're thinking?

DANIELLE WOOD: Yes, it absolutely does. If you cast your mind back even longer than that six month period it's been a bit of a political rollercoaster as to whether or not we will have change with regards to super tax concession. The Abbott government was first elected on a platform of doing a wide-ranging review of the tax system and at that point in time they sort of said everything's on the table, including some of the more politically difficult reforms, like GST, like super tax concessions and we certainly felt at that point in time there was this building momentum for change. Throughout civil society, academics, think tanks, welfare groups, business groups were all coming and saying it seems that the current system of concessions are probably too generous and they're costing the budget a lot of money, we need to see some change here. And even the industry at that point were putting gout fairly moderate proposals, but nonetheless there was recognition of change, and if John was here he would say that's like the turkeys voting for Christmas, which is his favourite line.

But I think politics intervened, as it so often does, and when Labor put out their policy, which was really just winding back or charging a bit more tax on contributions and earnings for people with very high incomes, I think Tony Abbott saw a bit of a political opportunity there. So rather than using it as political cover to introduce his own policy what we saw instead is he saw a bit of a wedge opportunity. Then they very much took super off the table, they said the government wouldn't touch superannuation tax concessions, so at that point we thought really more likely there is going to be no change for the foreseeable future. Now we're obviously in a very different world, a new Prime Minister, a new Treasurer, and I think you're right, the rhetoric seems to have changed once again.

BRENDAN COATES: Yes, definitely. I think the clearest signal yet that we've really had that there's an appetite for reform from within government was the Treasurer's speech to the ASFA (Australian Superannuation Funds of Australia) Industry Conference a couple of weeks ago. In that speech Morrison set out that any changes to superannuation tax concessions would be in line with an articulated objective for the superannuation system. So we'll have to wait and see just how far he's willing to go and exactly what that objective is and, therefore, what changes potentially he's considering or thinking about making to the system. But at this stage there were a couple of pieces of rhetoric that were quite important out of that speech. The first was an acknowledgement, the government has started to explicitly acknowledge that these tax concessions have a revenue cost. There are benefits sure in terms of increasing people's retirement incomes and facilitating additional saving, but at the same time there is a cost on the other side. So you're losing revenue, you're no longer collecting as much tax as you would be if you didn't have those concession and, as a result, there is a trade off or a balance that needs to be struck between those two things.

The other couple of comments I think that were really important that he put out in that speech were that when Australians see the superannuation system and the tax concessions being used for tax or estate planning tools, so if you see very large balances upon which people are paying very little or no tax, it undermines confidence in the system. And, thirdly, an acknowledgement from the government that unless you start to see some sort of sustainability in the system or some sort of winding back of these concessions then there's always going to be further demand for tinkering and change, and that's certainly been the case I think for the last ten years, ever since the reforms that Peter Costello put through as Treasurer at the end of the Howard government era.

JOANNA MATHER: As a foundation though I think there are three or perhaps four pillars to the retirement saving system. So they are of course the age pension, compulsory super and voluntary savings, and some people even include the family home in that. People have talked about the generosity of these tax concessions. What does Grattan want to happen?

BRENDAN COATES: I think what we want to see happen is, first of all, for there to be an articulated purpose for the superannuation system.

JOANNA MATHER: The government has committed to that, right?

BRENDAN COATES: Yes, the government has committed to that, although they haven't said exactly what that purpose will be. They've come close to at least indicating an acceptance or an acknowledgement that the proposal put forward in the Financial System Inquiry that was chaired by David Murray is not a bad place to start, which is essentially that superannuation should really be there to help supplement or substitute for the age pension. So that's certainly a good place to start, but I think it also requires a bit of an acknowledgement that superannuation isn't the only provider of retirement incomes. So, as you said Joanna, there are four different pillars. In reality people save or support themselves in retirement through each of those four pillars and superannuation isn't necessarily even the most important.

Some of the work we did for the report showed that people save more outside super than inside, and that's the case even when you exclude the family home. So other savings are larger necessarily than super. People might argue that that's going to change, as the super guarantee matures people have gone through their whole lives with compulsory super contributions of at least 9%, but even amongst younger people we still see that they save a lot outside super. And so we can end up in a bit of a trap in the debate, the debate runs as if superannuation is supposed to provide all the savings that people have and in reality that's just not true. Superannuation will contribute and I think it already contributes something like 15% of the income in retirement, but obviously the age pension and other savings and the family home provides a benefit to people, that means they don't have to pay rent, are far more important.

DANIELLE WOOD: I would echo the comments Brendan has made there and certainly the starting point that we took with the report is that the objective of the tax break should be to encourage people to save enough to replace or supplement the age pension. So in other words you get taxpayer support to take you to the point at which you can be financially independent in retirement or, at the very least, that you have a pool of private savings that you can draw on to supplement your income. But tax breaks shouldn't be unlimited and they shouldn't allow you to build up these very large nest eggs. So we certainly think that if you look at the system at the moment, the government's foregoing about $25 billion a year in tax breaks. More than half of those are going to the top 20% of income earners and really those are the people that are going to save anyway, they never have any intention of falling back on the age pension. So the case that we put in the report in its most simple terms is really that the current system of tax breaks is poorly targeted and reform could potentially yield the government substantial savings.

BRENDAN COATES: Just to pick up on that point about the $25 billion, I think it's important to acknowledge this number that's probably a new number that's come out of our work. There's a lot of debate about exactly what is the revenue foregone, how much do these tax concessions actually cost? Because if you say, "The money's not in super where is it going to go?" does it mean it's going to be taxed at full marginal rates of personal income tax, are people going to put in negative gearing, are they going to put in the family home, so these other savings vehicles which are taxed at less than full marginal rates of personal income tax. So one thing that we've done is we've spent quite a bit of time picking up on the Treasury's revenue gained figures about how they estimate the cost of these tax expenditures and trying to account for behaviour change, and then accounting for the interactions that come from estimating those particular tax expenditure figures so that the number, $25 billion, that we're putting on the table we're quite confident is a genuine revenue cost of the tax concessions as a whole within the system.

JOANNA MATHER: I tried to dig out some numbers about what are people relying on. I found 1.39 million on the full age pension and then about 760,000 over 65 self-funded or self-employed. Grattan says the objective of the system should be so that people no longer get any age pension at all. Why did you focus on that particular element?

BRENDAN COATES: I'd say first of all our objective was not necessarily that everyone shouldn't get any age pension at all because that would require a level of support through the tax system that would be far beyond the cost of the age pension itself just because of the way that tax concessions are targeted. So if you give people the opportunity to save a lot of money in a concessionally taxed environment it's mainly going to be people that have more disposable income that are going to make the greatest use of those concessions. So if you wanted everyone to not get the age pension and you wanted to give them enough concessions you would be giving away a lot more than the cost of the pension because the pension is targeted in a way that the top 20%, say, of retirees don't get it for either all or part of their retirement years. So when we think of the objectives of the superannuation system we probably seem them as being twofold.

One of them is this idea that you should try to reduce age pension expenditures, it's about a fair dispensation of the costs of retirement across generations and it's ensuring that the fiscal position of the government remains sustainable in the long term. But the other one is really to boost retirement incomes or what's called lifetime consumption smoothing where you try to support people to have a fairly constant level of consumption through their lives, a constant living standard. And there are a whole bunch of reasons we know from behavioural biases as to why people don't necessarily save enough for their retirement, so these tax concessions are a way of incentivising people to do that. Then when you think about what's the role of the tax breaks or the tax concessions within that, well it's to boost retirement savings but it's to do so really for those that up to the point where someone probably won't get the age pension at all anymore, which is basically the top 20%. Beyond that point you're suggesting not that we give people no tax concessions, but we just wouldn't give them any more than the people below them on the income ladder per se.

JOANNA MATHER: The reality is that most retirees will still receive some pension going forward?

DANIELLE WOOD: Yes, absolutely. I think one of the really interesting statistics from the Intergenerational Report that came out earlier this year was that at the moment about 70%, I think it is, of people over 60 are getting some form of pension, either a full or a part pension. By 2055, so 40 years' time after we have quite a mature superannuation system, that figure's only going to drop to 67%. So the age pension is still a central pillar of our retirement system for decades to come, but what we do expect to see is a lot of people shifting from full pension to part pension. So as private savings increase people will have a pool of savings that they can draw on to help supplement that pension income. To me I think that's why it's so powerful to try and focus those tax concessions on middle income people because really they're the people that we're talking about that we're going to be giving additional savings to in retirement to help them supplement that pension income. As we've already said, for people at the top that aren't ever going to get a pension anyway, they will still get tax breaks but it's not a blank cheque for them to continue to receive subsidies to build up ever-larger nest eggs.

JOANNA MATHER: The Association of Superannuation Funds has some benchmark figures on what you need to have a comfortable retirement, what you need to have a modest retirement. Can you tell us a little bit about those and whether you agree those are the right benchmark?

DANIELLE WOOD: Yes, sure. Certainly the different benchmarks get thrown around, but I think the one that's most often cited and I think the one that has the most factual basis and credibility is the ASFA Comfortable Standard. The Modest Standard doesn't get talked about quite as much because it's lower, but the comfortable standard is basically a bottom-up standard of retirement incomes that says what is the basket of goods and services that a retired person might need to live what we judge to be comfortably and what would that cost in a given year, and then how much of a nest egg might you need to build up in order to finance that standard? So at the moment for a couple that owns their own home ASFA estimates that they'd need $60,000 a year to spend to live at that comfortable level which equates to a pool of savings at retirement of about $650,000.

So we've certainly been on the record and a number of records have pointed out that that looks a little bit beyond comfortable, it probably looks like an affluent standard when we compare that to living standards across the population. There was a very good article in The Age this week by Peter Martin, I'm not sure if it made it into The Sydney Morning Herald, but he actually delved down into that standard and had a look at the individual components of spending that went behind that. So, for example, that includes the couple being able to spend $80 a week dining out, $200 a week on other food and groceries, $4,000 a year on Australian holidays, $80 a month on hairdressing, which I found to be quite at the high end, and $54 a month on pest control and alarms. So a lot of those I think people would agree are well beyond the standard of living that most average Australians expect to enjoy. And when we look at the numbers, we look at the $60,000 a year and we compare that to the spending of working couples that own their own home and retirees that own their home we see that is much beyond the average that most people enjoy.

So we certainly think there's a basis for it, but it tends to be at the higher end of expectations. The real concern I think is when start talking about standards that go far, far beyond that. So for example, ASFA has put a proposal that people should be able to make concessional contributions into their super up to $1 million over a lifetime and given the fact you're then making earnings on those contributions that results in a retirement balance perhaps up to $2.5 million. So if we're seeing $650,000 is affluent, $2.5 million is clearly well beyond the expectations of most Australians. We think that's far too generous to be supported by tax concessions and I think it shows a real disconnect between the views that the industry are putting and the way most Australians are actually living.

JOANNA MATHER: To put it into context, that $2.5 million delivers $120,000 of income a year.

DANIELLE WOOD: After tax.

JOANNA MATHER: Which is quite high some would think I guess. So what does Grattan propose to make this system fairer?

BRENDAN COATES: Just very quickly on the retirement income benchmarks, the other thing that's worth pointing out is the age pension cut off is going to fall once the new changes come into effect from 1 January 2017 to a bit over I think it's about $850,000, so, again, $2.5 million is well above that, and you should be assuming that people are drawing down on their balances. So the idea is not that you have $2.5 million and then when you pass away that's passed onto your children in a tax preferred environment, the idea is that people should be drawing down to a fairly strong degree on their retirement savings.

JOANNA MATHER: There are rules around that already?

BRENDAN COATES: Yes.

JOANNA MATHER: Are they adequate?

BRENDAN COATES: The rules are in place to essentially make sure that you draw down some minimum performance, I think it's 4% a year.

JOANNA MATHER: It increases as you age I think.

BRENDAN COATES: Yes, that is true. Obviously I'm not in that category yet, so it's probably part of the system I don't know quite as well. One of the reasons those rules are in place is to make sure that you have minimum draw down arrangements. So people can draw down as much as they like, really they can draw down a lump sum. The minimum, I think if you've got a balance that's that large what often happens is people who save inside super and have that amount often have a lot outside of super as well, so it's not your sole form of income or your sole form of assets. That's certainly what the data tells us. I know people might have different experiences even here in the audience. I don't probably a firm view as to whether 4% or 5% is the right number, I think it's more that if you're allowing people to accumulate such large balances in a tax preferred environment, even if they're drawing that down over 20 or 30 years, the fund earnings in that drawn down phase, in that retirement phase – and it's something we'll come to later – are tax-free. So you're not paying any tax on that and the withdrawals are also tax-free, so we don't necessarily see that as being sustainable.

JOANNA MATHER: Talk a little bit about the proposed $11,000 cap.

BRENDAN COATES: Yes, so there are essentially two parts to the concessions, there are the concessions on contributions and the concessions on earnings. So talking about the concessions on contributions, the way that super is taxed currently is you're essentially taxed at 15% on all contributions that are made from pre-tax income. So instead of paying your marginal rate, the money goes untaxed into the super fund from, say, your employer or if you salary sacrifice and then from there it's taxed at 15%. To put a brake on the system and a brake on the level of generosity that's provided there are currently caps of $30,000 for under 50s or $35,000 for above. We're suggesting that number should come down to $11,000 a year. So we see the current system as probably being too high. What it's doing is allowing a lot of high income earners who are unlikely to benefit from the age pension to essentially put quite a lot of money into superannuation each year. You're accumulating very large balances that then become tax-free in retirement and we don't think it's a sustainable proposition.

So we suggest reducing it to $11,000 a year, that's roughly the point at which someone on 1.5 times full-time annual earnings of about $115,000 a year would ensure that all their super guarantee contributions, like the compulsory contributions made by their employer, are still receiving the tax concession and if you have that kind of contribution regime for a period of time you're likely to save enough. Our research shows that you'll probably hit something like the ASFA Comfortable Standard and probably not receive the age pension for quite a lot of your retirement years.

JOANNA MATHER: Danielle, we should probably talk about the fact that we're not just talking about this because we want to boost the government coffers right, we've got some pretty serious economic challenges in the Budget sense. So presumably whatever the government made with these changes would go to other areas, perhaps other tax changes or to reducing the deficit I suppose?

DANIELLE WOOD: Yes, the Commonwealth Government is currently running a deficit of about $40 billion a year, we have a Treasurer that said we don't have a revenue problem, but certainly if you look at the history of revenue collections we're well down on the percentage of GDP on where we were five or six years ago. So we see changes to the superannuation tax arrangements probably as part of a potential tax reform package. What it does is by collecting more potentially from people at the top you can earn, I think we estimate $3.7 billion from our changes to the contributions concessions alone. That may be part of a broader tax reform package or it may just go to the Budget bottom line, but it's a sizeable amount of money that could make a significant difference to

Commonwealth Government finances without having too much of a detrimental impact on savings rates for the people that we're really worried about.

JOANNA MATHER: Could you tell us a bit more about the earnings element of the plan?

DANIELLE WOOD: Sure, so at the moment, as I think Brendan might have said, earnings are taxed in the fund for people that are under 60 at 15% and people that are drawing down on their balances, they're in the benefits phase, receive tax-free superannuation earnings. Our proposal is that the tax rate be boosted to 15% for those people so you have consistency across the lifetime in the way that those funds are taxed.

JOANNA MATHER: So obviously lots of think tanks, governments, academics have put forward different models for what might happen. One of them is a proposal to treat the taxing of super more like income, as in a progressive rate, and the proposal by some is to look at marginal rates and then, say, take 15c in the $1 off that. How do you feel about that sort of proposal?

BRENDAN COATES: It's probably the most credible of the alternative proposals that are floating around in the public debate. It has its genesis in the Henry Tax Review from 2008, the proposal at that point is instead of taxing contributions at a flat 15% rate you would tax them at marginal rates, treat them as taxable income as part of tax returns, and you would have some sort of fixed offset. The Henry Review recommended 20% or at least used 20% in all their work, they didn't necessarily endorse it. Deloittes came out recently and suggested 15%, so that would be a less concessional environment and you would save more. It has some intuitive appeal, it means that everyone gets the same value concession, so regardless all the way up the income distribution, but it does result in some quite perverse outcomes and it is potentially a lot more difficult to implement.

So first of all, say, if you had a 15 percentage point discount what you would be doing is you'd actually be reducing the value of the tax concessions available to a lot of middle income earners because the gap between their marginal tax rate and the current 15% tax that they pay is more than 15 percentage points. So you'd actually be taking concessions off that group in the middle who would become part-rate pensioners in the future that you're trying to really hit, while giving more to the bottom 30% and saving a lot of money. The alternative of doing it at a 20 percentage point discount, like the Henry Review suggested – mind you, they suggested that in the middle of the mining boom, so there was quite a lot more revenue floating around and perhaps it seemed like a better idea at the time – would ensure that a lot of people had more, including those right at the top because the value of the concession would actually allow more to go in for people at the top end than otherwise and, as a result, it wouldn't save very much money.

So one of our starting points for this piece and this work is essentially that you want to restore the system to balance, but there's probably also an imbalance in the amount of concessions that are floating around in the system, so you want a better target. There are probably some savings that you can make because super savers are taxpayers as well. The other issue that we really identified is that there are some administrative challenges. At the moment it's very simple for a super fund to tax the earnings in the fund because it's the same tax rate for everyone, they don't need to know what your taxable income is, what your marginal tax rate is, they don't really need to know how many employers you have, how many jobs, because they just see all of these contributions flow in, they run the ruler over them at 15% and they give the revenue to the government. What would happen instead is most likely the best model we could identify would be the employer would have to tax it.

The trouble is that means the employer, instead of just having to withhold the income tax that goes off to the ATO based on your marginal rate, they'd also have to collect the tax on your super fund contributions and then deliver that to your super fund. It becomes very messy if you've got multiple employers, it also becomes very messy because not all employers necessarily have their systems linked up between the two, so it's probably a much bigger reform to do whereas our proposal of an $11,000 cap, you change one number in a piece of legislation and you're pretty much done.

JOANNA MATHER: What about the argument that everything's fine, we should just let the system mature and go along?

BRENDAN COATES: I think as Danielle pointed out before, we have a Budget problem, part of the Budget problem really stems from the way that tax concessions are currently structured. You're giving away a lot to people at the top end and you're not doing it with a very strong policy purpose. So if you allow the system to continue to mature then you're going to see superannuation fund balances continue to grow and the overall amount of funds under management of the system will grow. And particularly on the earnings side for the tax-free earnings in retirement, what you're going to see is more and more revenue that's been foregone at the exact point where we've got this issue of population ageing, rising health expenditures, all of these things that mean there are going to be more pressures to try to provide the services that older Australians expect, or that we all expect really, we're all going to be old someday as well, and we're going to have less capability to actually achieve or provide those.

JOANNA MATHER: Danielle, I might be putting you on the spot, how much would you be earning to meet the $11,000 cap that you're talking about? What would your annual salary be?

DANIELLE WOOD: As Brendan said, if you were putting in super guarantee contributions at 9.5%, I think if you're earning about $115,000 then you're getting to the $11,000 cap. So, again, just to provide context, I think sometimes people forget what the income distribution actually looks like, but if you're earning $115,000 a year you're at 1.5 times average full-time weekly earnings. I think you're in the top 8% of income tax earners, so very much at the top end of the distribution before you're cutting out contributions.

JOANNA MATHER: How do we get around the issue that maybe people with broken careers, like women who've looked after children, might want to tip a bit more in some years or other years?

DANIELLE WOOD: This is an issue that comes up a lot when you talk about these things and Brendan can go to the figures around that, but I'd just make a general point that when we talk about this stuff the problem that we're trying to get to is the fact that women are retiring with much lower superannuation balances than men. The primary reason for that is not issues in the tax system, it's the fact that women have much lower lifetime earnings than men, and that's an issue that I would like to see fixed as much as anyone, but there's a whole lot of cultural and other issues that feed into that as a problem. I think a real concern is if the industry uses that as cover for arguing for the continuation of tax concessions that all our analysis shows primarily benefit wealthy, older and generally men.

Ironically, by maintaining those concessions in the name of helping women we're actually increasing the gap between the average retirement balances in men and women, but Brendan can maybe provide some more figures around who gets what.

BRENDAN COATES: In doing this report we heard a lot about catch-up contributors, people trying to make catch-up contributions and you're looking for people who are essentially middle income earners, so they had a break from the workforce because they have children or maybe they take a gap year or they do something else, maybe they're caring for a parent. What was quite striking though is just how few of these people there are that actually make large catch-up contributions. So whereas 70% of people in the top income decile, so the top 10% of taxable income earners would contribute more than $10,000 a year, that includes their compulsory contributions and then anything voluntary on top, only 5% of people in the middle do, and it's because people simply don't earn that amount of money.

So if your average income earner is somewhere around $50,000, it's less than the figures that Danielle was talking about before because no everyone works full-time, then it's not surprising that you don't have enough disposable income to make those catch-up contributions. So maybe you return to work and at that point you're still trying to pay off a house, there are a hierarchy of savings needs that people try to achieve or meet. Other stats that I think are quite striking are there are only 163,000 women that are earning less than $77,000 a year that make these pre-tax contributions of more than $10,000, but there are 900,000 men earning more than $77,000 a year who are making those contributions. The argument is always put that if you have a cap that's set at $10,000 you're going to hurt a lot of people who would be trying to catch up, and I think the answer to that is generally that's not the case. There are a few and that is an issue, but you've got to think of it in terms of the trade off in targeting support.

So if you want to support this group of people that's relatively small but we care about them, not that we don't care about everyone else, but if you're trying to solve this problem then is are super tax concessions and superannuation the best way to boost their retirement incomes?

JOANNA MATHER: What could we do for people at the lower end of the income scale?

BRENDAN COATES: I think there are probably two things that you would look to do. The first is there's something called the Low Income Superannuation Contribution which basically refunds the contributions tax that people earning less than, I think, $37,000 a year would pay. So that tax that's taken out of their super fund on their contributions is refunded by the ATO. That's actually scheduled to stop from 2017/18, the former Labor government introduced it, the Coalition government dropped it and that was related to either the mining or the carbon tax abolition, it was funded by one of those. So first of all we'd be at least retaining that and that's probably more a question of fairness, that if you're being forced to save by compulsory contributions to super then you probably should at least not be disadvantaged compared to the tax that you would be paying on that income if you're in the normal part of the tax system, and that's one are we're in fairly solid agreement with the industry in.

The other part is really if you're not going to use superannuation to help people at the bottom because it's not an effective or well-targeted tool to achieve that outcome, then maybe you look at something like the age pension instead.

DANIELLE WOOD: Certainly if you look at measures of financial distress or anything for people over 60, the people that are really struggling are people on the full pension that do not own their own home and that's really been because rent assistance hasn't kept up with the private rental market. So if you are worried about vulnerable groups of retirees, doing something about rent assistance would be absolutely the best thing you could do and that would help both the current generation of retirees and the next group coming through.

JOANNA MATHER: Because to recap, the ASFA benchmark of $640,000 delivers $2,255 a fortnight. The full pension I think is about $860, so we're talking about big gaps there.

DANIELLE WOOD: Yes, we're absolutely talking big gaps and remember that that ASFA Comfortable Standard is built for somebody that already owns their own home.

JOANNA MATHER: Yes, okay. Can we talk a little bit more about the history of the changes that have happened? Peter Costello removed taxes on benefits and provided a free kick to retirees and that persists. There are people who have $100 million super balances, there are very few of them and some have 10 or dozens of millions, but that's no longer possible right, haven't they already fixed that?

DANIELLE WOOD: In terms of those very, very large balances because you can no longer tip in as much as you want into super. So post-tax contributions are capped at $180,000 a year or I think it's $540,000 and you can do three years at once when you're close to retirement. Nonetheless, under that system you can still accumulate some pretty sizeable balances, so balances in the millions and I think what concerns me a bit in this debate, particularly when we're talking about the possibility of introducing some kind of flat tax for people in the retirement phase is when people talk about grandfathering those arrangements. Essentially it means that the people that did get these big benefits will continue to be able to enjoy tax-free earnings into the future. The group of working Australians that have lifestyles nowhere near that high will pay for those benefits, but they will not get access to the same benefits when they reach retirement age.

So it's actually quite a sizeable intergenerational transfer and I think that's an issue that often gets lost in the debate. When you talk about grandfathering everyone likes it because you don't upset anyone today, but that idea of transfers between generations, particularly something around superannuation because it is so sizeable, can make a really big impact on the amount of tax that someone that's working today needs to pay.

JOANNA MATHER: Yes. Paint us a picture of the tax burden on a middle income family with two children and a mortgage as opposed to a couple who are retired with a home and getting, sort, of franked dividends?

DANIELLE WOOD: So, for example, if I'm an income earner today earning $50,000 I pay about $9,000 in income tax and I probably also have a mortgage which I need to service. In contrast, a retiree that's generating income off their super of $50,000 a year pays no tax. So you have a really sizeable difference in the tax burden. Our proposal is certainly not that self-funded retirees are facing anywhere near those rates of normal income tax, but that they pay 15% tax on their earnings just as everyone under 60 currently does.

JOANNA MATHER: The other pressure that seems to be merging is that rates of home ownership may not be as high in the future as they have in the past and that's a key element for many people. I hear often they think that's how aged care may be paid for.

DANIELLE WOOD: Yes, I think that's going to be a very big challenge for our social security systems in general because a lot of the ways we provide support to people are based on the premise that most people own their own home. And when we look at rates of home ownership they're actually falling across the board for all age groups, but we see most significant drops are for people in that 24 to 34 year old age group. And people say don't worry, it's just that these people are deferring decisions to start a family or they're travelling first and they're going to buy their homes later in life. We actually see falling rates of home ownership in the next age group, the 35 to 44, the 45 to 54. So we're really having quite a fundamental shift I think from that expectation that most people in this country would own their own home to a world where far fewer are now going to be home owners.

JOANNA MATHER: How much would your proposal raise in the end?

DANIELLE WOOD: The earnings tax proposal, if you were to introduce the 15% tax on earnings for people in the benefits phase, would raise about $2.7 billion. That takes into account behavioural change, so everyone over 60 has access to a tax-free threshold outside of super so what you can do if you have a low balance is take that out and then you're not going to pay tax on your first $30,000 of earnings each year. So assuming that people take advantage of that and do that, you can still raise $2.7 billion and the very important thing to note with that number is that rises very strongly over time as we see balances in the system grow, as well as seeing the very large baby boomer cohort hit retirement age and the potential for tax-free super.

JOANNA MATHER: But will these changes make it less attractive to use super as a savings vehicle? I mean, that's an important part of the system is encouraging people to save?

BRENDAN COATES: Yes, definitely. That's part of the predication of why super tax concessions exist is to incentivise or encourage retirement savings. We're fairly confident that if you make these changes you're still making super a much more attractive vehicle for savings than pretty much everything else on the market. It's certainly the case if you're thinking about taxing contributions because there's not really anything other investment that you can do, negative gearing, buying a home where the capital gains aren't taxed, putting your money into trust. There are very few things where the income isn't taxed when you finance the principal that forms your savings. Just to be clear, we're not suggesting changes that are really going to hit the bottom 80% of people almost all the time because only the top 10%, 15%, 20% of income earners will come close to hitting that $11,000 cap just because that's what the income distribution looks like and it's what voluntary savings rates through super tell us.

On the earnings side, if you go from a world of taxing fund earnings for over 60s at zero, as is currently the case, to taxing them at 15% there are very few other vehicles that really allow you to be taxed at less than that. So you might think okay, the ones that are trotted out are normally negative gearing. Yes, you might be able to get something close to that if you gear yourself up, but a lot of retirees certainly wouldn't want to be doing that, that's not the time when you're really taking on additional liabilities in your life. You might think you might renovate the family home instead, that's great, you'll get a great new patio, but it doesn't necessarily mean that you've got additional income that you can use to support yourself in retirement. So there aren't really that many other vehicles. Because the changes essentially tax people in their drawn down phase over 60, so the same as currently applies to those under 60, I don't really see that you're going to see that much behaviour change because there just aren't that many other options available.

JOANNA MATHER: And we'll continue to see the system evolve and mature going forward?

BRENDAN COATES: Yes, definitely. So you're going to continue to see the system mature as super guarantee contributions become something that people have had their whole lives. The other point that's probably worth making is that we did quite an extensive review of the literature on how people respond to tax rates in their savings choices and it was pretty clear across a number of different countries - and I think it's consistent with the evidence we've seen even in the super system in Australia - that middle income earners and low income earners, if you change the tax rates on savings you will get a savings response, people will save more or less, depending on which way you move the tax rates.

At the upper end though what tends to happen is people don't tend to change their absolute level of savings that much, so a tax concession doesn't necessarily deliver you that much additional savings. But what it does do is they become much more careful about where they put their savings, they'll put more into a more concessionally taxed vehicle and less elsewhere. So if you're trying to engender additional savings money at the concessions at the top end don't necessarily achieve that outcome that you want to achieve.

JOANNA MATHER: I want to ask this question but I'm a bit nervous. Danielle, there's a quote in the report where it talks about the super system become a "kludgeocracy". Can you explain that to us please?

DANIELLE WOOD: This is one of John's favourites, so I'm sad that he's not here to answer this. The term "kludgeocracy" I don't know if it was coined, but it was certainly made popular by a US political scientist, Steven Teles, in an article a couple of years ago. Essentially the idea is as government policy becomes more complex, and often that complexity is there for very good reasons, it might be you want a policy to be fair so you introduce all these exceptions and thresholds and this and that, you end up with these extremely complex piece of policy and it becomes easier for vested interests to manipulate things in a way that's in their self-interest because you can't see what's going on, and I think it's a perfect word for the super system. We've spent many, many months looking at super and looking at super tax concessions and we still find it challenging to understand how some of the system works. It's very easy I think for the industry to put up proposals that might sound reasonable on their face, but if you're across the detail you might realise that they're not quite as good as they might otherwise appear for the average person on the street.

So that's a "Kludgeocracy" and I think a related concept or something that we see often in super is that people arguing for super tax concessions – and tax concessions in general actually, not just related to super – are often really trying to reduce the amount of income tax that people at the top of the distribution pay. That's totally fine, that's a fair principle, I don't personally agree that high income people pay too much tax but that's a perfectly valid view to hold, but if you want to argue for lower tax on high income people I think it's far fairer to do it in a transparent fashion and argue to pull down the top tax rates and let people see what you're saying, as opposed to promoting this system of tax breaks that makes it far less transparent for people to see what's going on.

JOANNA MATHER: I think there is a lot of appetite from the government in terms of this would look very good as a fairness piece that might accompany a GST rise or something like that, although as we've seen today apparently that process has been a bit derailed as well. Do you think the government really has an appetite for change here?

BRENDAN COATES: I think that there is an acknowledgement that the system is out of whack and as a result of that they're going to need to do something, and over time those pressures have been there and the pressures are building and there will be at some point I think some change that takes place. You could certainly the logic of a package that put together super tax concessions that probably did more to affect people at the top end and the GST that, certainly before compensation, looks like people at the bottom end pay a lot more. You put those things together and you can run an argument that essentially we have a Budget problem, there needs to be a fair sharing of the burden of trying to fix this problem, it's come about over a number of years and here's a package that sort of delivers that, it does both those things at one. I think there's probably less appetite on the earnings side.

In that speech from Scott Morrison the Treasurer that I mentioned at the start there are a lot of statements about super being your money, you people have saved under a certain set of rules and they need certainty. Mind you, you don't get certainty in any other part of the income tax system. So I think that on the earnings side there's probably more of a reluctance to go there, but certainly on contributions the signs are still looking fairly positive.

DANIELLE WOOD: Clearly Malcolm Turnbull's very focused on this issue of fairness and whenever he talks about tax reform he comes back to the point about fairness and I suspect that the lessons of the 2014/15 Budget still loom large in the minds because the changes proposed there were very much perceived in the community to be unfair and it just showed the kind of backlash that you can get. So I think Brendan's right, I could see a world where a GST and super tax concessions package would be attractive. Whether there's enough money in the GST for the Commonwealth is another question.

JOANNA MATHER: And a difficult political task because it strikes at the heart of the Liberal Party's constituency.

DANIELLE WOOD: Yes, that's true.

JOANNA MATHER: We might take some questions from the audience. Does anyone have anything they'd like to ask?

AUDIENCE: If I can have your indulgence I might make a couple of short statements. There's been a lot of commentary this evening about ASFA's work. I understand the methodology of the ASFA standards pretty well and am interested to find where you get the haircuts, particularly for women, and a few of the other things. People pick over the amounts, but basically they correspond with what many people aspire to in retirement. Currently about 20% of people in retirement achieve those numbers. They're aspirational, that's why we have the SG (Superannuation Guarantee).

If you just wanted to replicate what we have now you turn off the SG, you just rely on the age pension and most people living in poverty. Peter Martin put in a spirited article in the Fairfax press and he got a lot of spirited responses, there were about 200 comments, and the gist of most of them was if you want to live at the modest standard, the age pension, well you can sit in a room with the lights off or dimmed so you don't spend any money on electricity looking at your missus or the old man. If you want to spend retirement like that, fine if that's your aspiration. I think it's not what we need in our society and what people want. Basically you survey people and they go for the comfortable.

DANIELLE WOOD: Of course it's aspirational, we all want more money, there's no doubt about that. The question we're debating is how much should the government help underwrite those savings?

AUDIENCE: ASFA argues it's a reasonable aspiration and that's why it was brought in by the then Labor government. It wasn't a measure in the tax system. Most of the super tax concessions and the SG were brought in by a Labor government in conjunction with the ACTU to improve the standard of living of people in retirement.

DANIELLE WOOD: Yes and it's not inconsistent with the proposals that we're putting forward. When we talk about the objective of the system to help supplement or replace the age pension the level of assistance we're talking about is not inconsistent with the government standard.

AUDIENCE: I think your $11,000 is a very strange objective because it basically seems to link to the idea that in year one people won't qualify for the age pension and I don't agree with you that for the bulk of their retirement they then would not qualify for the age pension because they'd be drawing down money at quite a great rate each year more than the investment earnings. So I think you're very underdone in your set of objectives, I don't think the calculation works, and I think you've been misrepresenting the nature of the ASFA Comfortable Standard as an objective. That's just my observations.

JOANNA MATHER: It's a battle of the think tank and the industry group. Do you want to say anything or shall we take another question?

BRENDAN COATES: Just very quickly, I think with the ASFA standard the question is really when it comes to should this be the basis for government policy and if the target standard is a standard of living above - it's aspirational, sure I buy that, it's great to put it up on websites like Money as something that people might want to achieve. But if you put that up as the basis for what everyone should achieve and it's a higher standard of living than what people achieve during their working lives then you've got a problem. It's not working as a standard or as a benchmark for retirement income adequacy; it's working as an aspiration. That's all I'd say.

AUDIENCE: But in their objectives ASFA say about 50% of the population by 2050 might be a reasonable target and if you stop the SG at 9.5% and bring in caps like you're talking about and taxing investment earnings in retirement you drop it down to 30% or 40% of the population getting there. So that's how they assess the efficacy of measures, it's in terms of what it will deliver to people in the end rather than giving governments more money to spend on submarines.

JOANNA MATHER: Thank you for that.

DANIELLE WOOD: I just wanted to respond to that as well. It's very well to focus on the sort of lifestyles people could enjoy in their retirement, but we need to think about lifestyles across the lifecycle and let's remember that the less you're taxing people in retirement the more you're taxing people of working age to pay for that. So we certainly don't want to be seeing people that are trying to pay off their mortgage and raise kids having to pay a whole lot more tax to support everyone achieving this aspirational target that you're talking about.

AUDIENCE: My question relates to the references to the "kludgeocracy" and also fairness. I found it interesting that you went for a simple change which would leave the system complex instead of for a more complex change that would leave the system simpler. In particular, why not determine how much money somebody needs for a comfortable retirement, and you can have the debate about that, but once determining that so you get tax preferred status until that point and then afterwards no tax preferred status.

JOANNA MATHER: I think Scott Morrison has indicated he might be keen on that.

DANIELLE WOOD: Are you getting to the point that you could have a lifetime cap on concessional contributions?

AUDIENCE: Yes and after that marginal tax rates.

BRENDAN COATES: I'd start by saying that our objective was to put forward a system that we think is workable and feasible at the same time as trying to align it more closely with what we would see as the objective of the system, and we pretty much sign up to the FSI Inquiry recommendation in that regard. There are some issues with something like a lifetime cap in the sense that it's really about what level you set it at. So if you set it at a level that's quite high, the proposals have been is that you should have a lifetime cap of $1 million or $650,000 or something like that, you'll probably find there's quite a lot of gaming or use of the system. At the moment when you have an annual cap there are still quite a lot of people who engage in something like super recycling, which Joanna's written on before, which is where you withdraw money from your super once you're allowed to and you put all of your income into super in a concessionally taxed environment and it's a way of not necessarily boosting a lot of retirement savings, but boosting the degree to which people are using tax concessions to reduce their annual tax liability. So you're spending a lot to not necessarily get a lot back.

So if you look at a lifetime cap you're probably looking at a number that's quite low, it's $300,000 say, or $400,000 I think was the number Rice Warner put out quite recently. We're pitching for a system where you can make the changes as part of a package that don't generate such large complex costs because what happens is there are often huge transition costs associated with changes and we've see in the superannuation system one of the main reasons why Peter Costello abolished taxes on benefits is because there was this thing called "reasonable benefit limits" which basically restricted the amount of tax concessions you could get out of the superannuation system. But it was quite complex and so his solution was to get rid of the whole thing at once. And whilst I don't necessarily think that that was a good idea to do that and not tax earnings, it wasn't the worst idea in the world to try to reduce the amount of complexity in that form.

DANIELLE WOOD: The only thing I would add is if we were designing a super system from scratch, a tax concessions system from scratch with a blank sheet of paper we would not start where we are today. I think the industry and we would be in complete agreement on that. Nonetheless, we are where we are and I think we have to be cognisant when we're making any proposals for change that there can be significant transition costs. So really we've tried to work within the envelope of what we've got and do things that won't be too disruptive to the existing system, that won't impose very significant administrative burdens, that don't lead to long lags in government tax collections, that we still hope are relatively simple.

AUDIENCE: I'm puzzled, without going into a matter of concessions and taxation, you speak about compulsory superannuation and then you refer to it as the Superannuation Guarantee. I think you spoke of a 9.5% cap, are you suggesting in your whole lifetime that that will earn you enough to retire on? And my question is this, compulsory superannuation when I began working and there was a superannuation fund, I paid 7.5%, my employer paid 7.5%, and that was compulsory superannuation from the point of view of somebody being employed. That was a woman's rate of pay and I speak to many young people and they don't even contribute at all of their own salary into superannuation, they said, "Why? We want to do other things". What guarantee is there that people will save for the home and people will save for retirement if there is no so-called compulsory superannuation by an employee?

BRENDAN COATES: Thank you for the question. I suppose there's two parts to that. The thing that's called the Super Guarantee, that's the name of the policy for the rate of compulsory savings than an employer has to put in. That's 9.5% and it's legislated to grow to 12% in the early 2020s, so that's the level of compulsory saving that is put away on people's behalf into a superannuation fund account that they own or control. As I said at the start about the different pillars, people tend to save either voluntarily through super and there are some people that do that but there are not a lot of people who do that earlier in their lives. Then there are savings outside of that, so there are savings outside the superannuation system. A lot of the work that we've done has shown that a lot of those savings outside the system can be larger than the savings inside the system, so people draw on a range of sources to fund their retirement.

So when we talk about a cap of $11,000 it's the amount that you'll be able to contribute on a pre-tax basis, so that would apply to your SG contributions as well. Once you hit $11,000 of SG contributions you wouldn't necessarily receive a tax concession. But people tend to save through a range of vehicles and not all of them receive a tax concession. People save outside of super at much higher tax rates than they do inside and so you would expect to see that people would probably be drawing an income from a variety of sources, that's how they're going to get to an adequate level of retirement savings. That's what we see in the data, but Danielle I don't know if you have anything to add?

DANIELLE WOOD: Just so we're 100% clear on what we're proposing, nothing we're saying is about abolishing the SG in any way. I just want to make sure that was clear.

AUDIENCE: [Inaudible] I think people need to be more encouraged right from the start to have a small percentage going into their compulsory superannuation.

JOANNA MATHER: Okay. Any more questions?

AUDIENCE: We read a lot these days about equity and Gina Rinehart and a few of her mates earn and own more than the rest of us, the 95%. It strikes me that your program here has a great deal to say for equity. So why can't you mount a campaign with GetUp! or one of these "get up and move the world" type of organisations or why can't Grattan do it itself? You have another report out on the GST in which you say under certain conditions it will be also equitable. So the second part of my question is which one do you prefer and which one is more equitable?

DANIELLE WOOD: We both contributed to both reports, so we should have a good answer for that. On the campaign point, I think Grattan is very much focused on releasing its own reports and trying to get the message out about the policies that we think are right and GetUp! obviously plays a somewhat different role, so I think that what we do is complementary to some degree. As I said before, I actually can see a superannuation/GST package. For those people that haven't seen our GST report, essentially what we tried to do is see if you could craft a package that involved either an increase in the GST to 15% or a broadening base of the GST and come up with compensation that meant that that wasn't regressive.

So what we said is say if you increase the rate to 15% you'd raise about $27 billion a year, you could spend 30% of that on increasing welfare payments which would increase standard of living for people particularly at the bottom 20% of the population; you could spend another 30% on income tax cuts focused on the low and middle brackets; and that overall package actually leads to a situation where most households earning up to $100,000 are better off after the GST. The government raises a bit of revenue on the way, perhaps not as much as they'd like because obviously they're giving back 60% of that revenue through tax cuts and welfare, but you can craft a GST package that at least on average is more progressive than the existing tax system.

AUDIENCE: So what is the Grattan recommendation? A combination of both systems or one or the other, that's the question?

DANIELLE WOOD: I think we would say you should do both. So you can do that progressive GST package that I just talked about there, that would net I think it's about $15 billion for the Commonwealth Government, the super changes that we're talking about take you to about $6 billion. So overall I think you're then talking a sizeable contribution to both helping State Governments fund the growing hospital spending costs and doing something about the Commonwealth Government's Budget bottom line.

AUDIENCE: And you don't intend to use GetUp!?

DANIELLE WOOD: You can read from what I say, we don't intend to use GetUp!

AUDIENCE: Danielle, you spoke a little bit about age pension reliance by 2050 and the fact that divided between the part-pension and the full pension it's about the same but it's still sticking around that 70% mark. What impact would Grattan's recommendations have on age pension reliance that far out and do the recommendations actually reduce age pension reliance at all or just take money out of the system?

DANIELLE WOOD: Brendan might have more detailed comments than I do, but as a general point the key impact of the proposals we're putting forward are really on people in the top 20% of the income distribution and, as we said at the very start, they're really the people that are going to save anyway. If you're earning $150,000 a year you probably have no intention of falling back on an age pension of $35,000 a year when you hit retirement. So to the extent that we're reducing tax concessions for those people we expect that it's not going to have too much of an impact on age pension reliance going forward. Clearly there'll be some impact, there are trade-offs, what the government saves in tax concessions they may have to pay a bit more out in age pensions, but because we're talking about a more targeted package we think that the impact shouldn't be too sizeable.

BRENDAN COATES: Just picking up on that point from Danielle, if 50% of the value of the tax concessions are going to those in the top 20% they're precisely the group that are unlikely to end up with much in the way of an age pension for all or at least quite a large part of their retirement years, and if they end up on it then they're on a part-rate pension as they're drawing down their savings later in life. If you're thinking of the trade-off between okay, if we give tax concessions now there's a cost to government in terms of foregone revenue versus some future pay-off fiscally for the government in terms of less age pension spending, if you're giving away 50% of the concessions to the top 20% your cost/benefit analysis of what you're getting back on the fiscal side is pretty weak. So you might lose a little bit, but it's going to be nothing like the revenue that you're obtaining that you're using to finance basically the Budget challenges that we're facing at the moment.

AUDIENCE: [Inaudible]

BRENDAN COATES: Sure, if they end up paying less tax along the lines as a result of not giving as much away through super tax concessions then sure, that's probably going to help them. We do talk about retaining the LISC, that would cost I think roughly $1 billion to retain but, again, super savers are taxpayers as well. So if you're going to have to fix the fiscal deficit somehow it's going to be via a mixture of either spending cuts and tax rises – evidence has shown you probably need a bit of both, you certainly can't just rely on spending cuts is what the 2014/15 Budget showed us – then you're certainly looking at the fact that you're reducing the likely tax burden or the reduction on services that people face is certainly going to help them out.

AUDIENCE: You said you had factored in people moving their money to other tax breaks in your estimate of government revenue saving. I'm wondering, without a commensurate move on negative gearing and capital gains tax, are we going to see further inflation of the already hyper-inflated housing market?

BRENDAN COATES: Danielle knows more about negative gearing and I've probably done a bit more on the super earnings side. Negative gearing reduces the effective tax rate that people are paying on the return on their investment, but the tax rates for superannuation are still quite low. So the tax rate for earnings is 15%. It can often be a bit less than that because you have a capital gains tax discount within that, so you don't pay tax on the full amount of any capital gains that are realised within the superannuation fund. You also have refundable dividend imputation credits which can bring it down even further. So I don't think there are many people out there who are going to be able to look at super, particularly in the draw down phase, which is really what we're doing for over 60s, and say, "Okay, I've gone from paying 0% tax to 15% tax, I'm going to go out and negative gear". That's fairly unlikely and the same even on the contributions side, if you go to paying full rates of personal income tax on the contributions that you put into super if you exceed this $11,000 cap you're still then only paying 15% on the earnings and there aren't many investments, there are restrictions to how much you can negatively gear and how much leverage you can take on.

DANIELLE WOOD: Yes and on negatively gearing, if you're interested in that we are going to release a paper in March that goes to potential reforms to negative gearing and the capital gains tax and exactly how those tax concessions have interacted to lead to some of the housing market issues that we now see. We do have to wrap up unfortunately, we've only got a few more minutes, I need to thank everyone and we've got to run to the airport, but we're happy to have a very quick chat with you afterwards, unless it's very quick.

AUDIENCE: It's very quick. With the GST, we don't know that services will be improved because there's a Budget deficit. I understand there was a Freedom of Information report someone asked for and there was something about plugging the Budget deficit first.

DANIELLE WOOD: Yes, some of the GST money is going to go to the states and the idea from the South Australian and New South Wales Premiers in putting that forward is really that they see a looming hospital funding gap. Health funding tends to grow faster than the economy, particularly as new health technologies become available, people want them funded. The Commonwealth Government in the 2014/15 Budget said they're only going to give states transfers for hospitals that increase in line with inflation and population growth. So when you've got health spending growing like this and transfers in the Commonwealth growing like this you have a gap and the idea for raising more through the GST that goes to the states is to help them fill that gap in order to continue to improve hospital services.

So some of it might go to the Commonwealth Government and the Budget bottom line, but certainly the states are not going to be signing up to a GST unless they're getting a sizable chunk of that revenue.

JOANNA MATHER: Which is a row which is unfolding as we speak.

DANIELLE WOOD: Yes and will all play out tomorrow.

JOANNA MATHER: We might have to wrap up.

DANIELLE WOOD: Thank you everyone for coming, thank you again to the State Library and a big thank you to Joanna for asking the hard questions tonight.

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