GRATTAN
Institute

Submission to the Senate Standing Committee on Economics

Reference concerning:
Superannuation (Excess Transfer Balance Tax) Bill 2016 [Provisions] and Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016 [Provisions]

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John Daley, Brendan Coates and William Young

Table 1: Government proposed reforms to superannuation tax breaks, ALP responses, and Grattan recommendations

	Government policy		ALP position	Grattan position	
	Proposed change	**Budget impact 2019-20 ($m)**	**additional impact 2019-20 ($m)**	**additional impact 2019-20 ($m)**	**Rationale for Grattan position**
Pre-tax contributions	Lower annual cap on pre-tax contributions to $25,000 a year	+849*	✔	✔	Reduces tax breaks for those unlikely to access the Age Pension in retirement
	Allow carry forward of unused pre-tax contribution caps if super balance is less than $500,000	–100	+100 (no carry forward)	+100 (no carry forward)	Does little to realistically help low- and middle-income earners to make catch-up contributions
	Lower income threshold for the 30% Division 293 tax on super contributions to $250,000	+200*	+500 (lower further to $200,000)	+500 (lower further to $200,000)	Reduces tax breaks for those unlikely to access the Age Pension in retirement; ALP's $200,000 threshold better targets tax breaks at those who need them
	Maintain the LISC (renamed 'Low Income Superannuation Tax Offset')	–801	✔	✔	Compensates low-income earners for compulsory super contributions; increasing LISTO further is not the best way to help low-income earners with retirement adequacy
	Permit all workers to make personal pre-tax super contributions	–700	+700 (no expansion)	✔	Enables those with a mix of employment and self-employment to access super tax breaks.
	Remove anti-detriment provisions in respect of death benefits from super	+245	✔	✔	No reason to refund contributions tax paid by deceased estate.
Total super contributions	Lower the post-tax contributions cap to $100,000 and restrict to individuals with super balances below $1.6 million	+150	+10 (lower further to $75,000)	+10 (lower further to $75,000)	$75,000 cap does more to reduce tax breaks for those unlikely to access the Age Pension, with little impact on genuine savings
	Increase income threshold for low income spouse tax offset to $37,000	–5	✔	+5 (freeze threshold)	Poorly-targeted way to boost retirement incomes
Earnings post-retirement	15% tax on super earnings in retirement for super account balances exceeding $1.6 million	+700	✔	✔	No rationale for tax-free super earnings in retirement; big long-term budgetary savings
	15% earnings tax for super accounts for transition to retirement pensions	+180	✔	✔	Closes tax-planning loophole allowing people to reduce tax on super earnings before retirement
Extra savings		—	+1275†	+ 580†	
Total annual budget impact (2019-20)		**+718**	**+1993†**	**+1298†**	

*Grattan estimate †Includes policy interactions of $35 million

Source: Grattan analysis of ATO 2% sample file 2013-14, explanatory memorandum to Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016, and ALP's 2016 'Fairer super plan' policy document.

We welcome the Inquiry of the Senate Standing Committee on Economics into *Superannuation (Excess Transfer Balance Tax) Bill 2016 [Provisions]* and *Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016 [Provisions]*.

The government proposes to introduce legislation stipulating that the aim of the $2 trillion superannuation system is to encourage savings to supplement or substitute for the Age Pension. Tax breaks should only be available when they serve this policy aim. Yet as our 2015 *Super tax targeting* report shows, current super tax breaks go well beyond this purpose and their costs are unsustainable.

The past year has seen significant progress towards winding back unduly generous superannuation tax breaks, with proposals from both major parties.

Our 2016 working paper, *A better super system* (Attachment A to this submission), analyses the impact of proposed changes to super tax breaks as they were announced in the 2016-17 Budget, and the ALP's subsequent response. The paper found that both parties' changes would be big steps towards aligning super tax breaks more closely with their purpose. They would trim the generous super tax breaks enjoyed by the top 20 per cent of income earners – people wealthy enough to be comfortable in retirement and unlikely to qualify for the Age Pension.

Nor are the proposed changes retrospective. Many reforms affect investments made in the past, and no-one suggests they are retrospective. Rather, the changes would affect taxes paid on future super earnings, and entitlements to make future contributions to super.

This submission briefly updates our analysis to reflect further changes to the Government's package super tax reforms, and the ALP's subsequent response. This updated analysis, presented at Table 1, shows that the major parties disagree about relatively little in this debate. Any combination of the packages on offer would improve the current system.

Lowering the income threshold for Division 293 tax to $200,000 as the ALP proposes, compared to $250,000 as the Government proposes, would further improve the Government's legislation. It would save the Budget a further $500 million a year.

While we supported the Government's original $500,000 lifetime cap on post-tax contributions, the Government's revised $100,000 annual cap will achieve a similar result. Lowering the annual cap to $75,000 as the ALP proposes, would do an even better job of aligning super tax breaks with the purpose of superannuation.

We continue to support the Government's proposal to make it easier for people to make voluntary pre-tax contributions directly into their superannuation fund. The change improves system flexibility and levels the playing field so that some people do not miss out on super tax breaks simply because of their employment circumstances. Workers who do not have access to salary sacrifice arrangements are likely to work for small employers and earn lower wages.

While the packages of both Government and ALP would be big steps forward, neither goes far enough.

Even after the reforms, super tax breaks will still mostly flow to high-income earners who do not need them. The budgetary costs of super tax breaks will remain unsustainable in the long term. Further changes to super tax breaks will be needed in future.

In contemplating future changes, government should consider the limits of superannuation. Compulsory superannuation payments help many middle-income earners to save more for retirement, but super is simply the wrong tool to provide adequate support for low-income earners. Our article, *The government shouldn't use super to help low-income savers* (see Attachment B), shows that top-up measures targeted at helping low-income earners save for retirement are poorly targeted and an expensive way to do so. With the Age Pension and Rent Assistance, government already has the right tools for assisting lower income Australians.