Question on notice no. 3

Portfolio question number: 3

2018-19 Budget estimates

Finance and Public Administration Committee, Parliamentary departments Portfolio

Senator Jenny McAllister: asked the Parliamentary Budget Office on 21 May 2018 —

Senator McALLISTER: That sounds sensible. Again, I am asking about the dynamics rather than the quantum here. If the $1.6 million transfer balance cap had not been factored in, more revenue would have been collected-is that correct?
Ms Wilkinson: Absolutely.
Senator McALLISTER: And you do have a quantum for that but you are not keen to share that either.
Ms Wilkinson: Again, these are breakdowns of the costings. Whenever we provide a piece of costing advice to a parliamentarian, we're very happy to talk through with them the details underpinning the numbers that we provide to them. Again, yes, you're absolutely right: the impact of the transfer balance cap has been taken into account. If we didn't have a transfer balance cap, there would have been additional revenue raised. Because the transfer balance cap applies only to individuals who have balances above $1.6 million, and it applies only to their balance above $1.6 million, there is actually a relatively small proportion of assets across the superannuation system that fit into that category. But you're right: that would have increased the revenue that we would have otherwise received.
Senator McALLISTER: You mentioned that the baseline includes the lower company tax rate of 25 per cent, rolled out over the medium term. That pushes the amount of revenue you are able to collect downward-is that correct?
Ms Wilkinson: Absolutely.
Senator McALLISTER: And that's also something you have quantified for Senator Leyonhjelm, but it falls into that earlier category of matters you would rather not disclose without talking to him.
Ms Wilkinson: It's a matter that I would be very happy to take on notice, and I would be very happy to provide that information as long as Senator Leyonhjelm was happy having that information being shared.
Answer —
This answer refers to the Parliamentary Budget Office (PBO) costing response *Dividend imputation credit refunds* (PR18/00145), Option 2 (*Make franking credits non-refundable for individuals and superannuation funds, excluding Australian Government pension and allowance recipients*), released on 8 May 2018 by Senator Leyonhjelm. This costing was based on tax return data for individuals and superannuation funds from 2014-15, which preceded the introduction of the transfer balance cap and company tax cuts under the *Enterprise Tax Plan*. The baseline data was adjusted to account for these policies. Without this adjustment to the data, the financial implications of the proposal would be

about 20 per cent higher over the period to 2027-28.

The introduction of the transfer balance cap increases the tax rate on some superannuation assets, which reduces the amount of imputation credits that are refundable under current policy settings. Contrary to some commentary, the transfer balance cap will not offset a large proportion of the revenue that would otherwise be raised by the proposal, because the cap will only affect a relatively small proportion of pension phase superannuation assets (largely held by self-managedsuperannuation funds). Many funds subject to the cap would remain in a net refund position after the cap is introduced.

The value of imputation credits for both superannuation funds and individuals is linked to the company tax rate. As the company tax rate gradually comes down, as per the Government's *Enterprise Tax Plan*, this would reduce the expected revenue gain of the proposal, particularly after the full
tax cut is phased in from 2026-27.

As noted in the response, there are significant uncertainties around the behavioural responses of affected individuals, superannuation funds and companies to the proposal, and behavioural responses to recent superannuation measures. The PBO notes that all policy costings, no matter who they are prepared by, are subject to uncertainty.