Question on notice no. 4

Portfolio question number: 4

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: I want to quickly touch on some of the public reporting around private sector assessments of the impact of this. Rice Warner did some work on behalf of the Alliance for a Fairer Retirement System, and their assessment was that the revenue would come in at about $550 million less than what you estimated for Senator Leyonhjelm. Are the assumptions around behavioural change in the Leyonhjelm policy more or less conservative than what Rice Warner have assumed in their work?

Ms Wilkinson: We obviously had a look at the Rice Warner work that came out last week. We haven't had an opportunity to talk through the details of that analysis, but we certainly are intending to reach out to Rice Warner or the SMSF Association to have that discussion. It looked on the face of it like they had assumed that we hadn't taken into account any behavioural changes in our costing-which, as I've explained, is not correct at all; we absolutely have. So we were a bit puzzled by that assumption, because we've always been clear in all of our documentation that we take into account behavioural responses. The types of behavioural responses that they talked about in that publication were very similar to the types of behavioural assumptions that we've indeed taken into account. As I said, I'd prefer to take specific quantum questions on notice, but I think I'm comfortable in saying that, in terms of broad orders of magnitude, the sorts of behavioural responses that they have concluded are not that different to the sorts of behavioural responses that we think are reasonably likely. So we took some comfort in the fact that there was a completely independent estimate of what are the likely behavioural responses, and we hadn't had any involvement with that work that was undertaken. Certainly on that part of their analysis, on the ways in which people are likely to respond and what proportion of people are likely to respond, we felt reasonably comfortable.

Answer —

This answer compares Rice Warner's letter of 2 May 2018 to the Alliance for a Fairer Retirement System to the Parliamentary Budget Office's (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. The PBO considers that the behavioural assumptions used in the costing are similar to the illustrative behavioural responses discussed by Rice Warner in regards to self-managed superannuation funds. Rice Warner's analysis implied a similar impact on revenue as the PBO's behavioural assumptions.

For instance, the PBO considered that when a self-managed superannuation fund sells or transfers its Australian equities to an Australian Prudential Regulation Authority (APRA) fund in a net taxpaying position, this response offsets the revenue gain, but if the equities are sold to a foreign investor, there is no offset to revenue. In net terms, the impact of our behavioural assumption for self-managed superannuation funds on the estimated revenue gain is consistent with that of Rice Warner at around 20 per cent in the first year of the policy. We do assume, however, that the magnitude of the behavioural response declines as the company tax rate declines, reflecting that the incentive for funds to sell their shares is lower when the company tax rate is lower.

We also considered that around 20 per cent of Australian equities held by self-managed superannuation funds are unlisted, and these typically have low levels of liquidity. In the first year of the policy, the behavioural response we assume for self-managed superannuation funds would be equivalent to these funds moving around a quarter of their listed Australian shares into APRA funds.