SMSF ASSOCIATION

RESEARCH REPORT

Evaluation of the proposed changes to superannuation tax concessions

Research note summary, October 2023

Purpose

To examine the potential liquidity issues that can arise for some SMSF members from the Government's proposed changes to the tax concessions applied to superannuation balances that exceed $3 million.

Methodology

The research took anonymised financial data received from BGL Corporate Solutions, Class Limited and SuperConcepts for over 722,000 SMSF members (two thirds of all SMSF members in Australia) for both the 2020/21- and 2021/22-income years (the most recent available SMSF data).

Key finding	Observation
Up to **50,000** SMSF members potentially affected nationwide	Conservative ceiling estimate given the data did not capture the non-SMSF superannuation assets that would also be included in an SMSF member's TSB.
For affected SMSF members, the mean additional tax liability would have exceeded **$80,000** in both 2021 and 2022	The treatment of unrealised capital gains and carried forward capital losses is highly problematic given the general nature of capital markets. It is common to see a string of bull market years (which would require impacted SMSF members to pay incremental tax on their unrealised capital gains) followed by a sudden sharp bear market decline. This means there is a real possibility members could effectively be cumulatively taxed on investments that make an overall loss without any real recourse to recover their tax expense. If their TSB remains below $3 million in subsequent years, the resulting tax offset will be worthless while the tax paid on their prior year unrealised gains could be substantial.
An estimated **13.5%** of affected SMSF members would have experienced liquidity stress in meeting the new tax obligation	Including unrealised capital gains significantly adds to the unpredictability and inequity of the proposed tax change, and is a radical departure from existing tax policy. Year –on-year tax liabilities are directly related to the performance of investment markets making it difficult for SMSF members to plan investments and manage liquidity. Asset rich, income poor SMSF members are unlikely to be able to cover the additional tax liability. This problem is likely to worsen over time as unrealised capital gains accrue while existing liquidity diminishes based on prior years. Selling illiquid assets is typically associated with substantial transaction costs, market timing considerations and other macro-economic factors that are likely to further exacerbate the potential losses associated with meeting the new tax liability. Adjusting the calculation of earnings to be consistent with existing tax policy (that is, by excluding unrealised capital gains from the calculation of earnings), will not only alleviate year-on-year liquidity stress for some members, but is also very likely to increase total tax revenue under the proposed tax change over the medium to long term. This is because the tax will still be levied on capital gains but only when the underlying assets are eventually sold. Under normal market conditions the asset price appreciation over time will lead to a larger overall tax base.

To model the impact of the proposed changes, it was assumed the changes to the superannuation tax concessions that apply to superannuation balances that exceed $3 million, were introduced on 1 July 2020, and applied for the 2020/21- and 2021/22-income years.