Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Retirement Income Policy Division
Question No: 249
Topic: Budget Measure 17/18 - Reducing barriers to downsizing
Reference: Written
Senator: Cameron, Doug

Question:

1. This measure has been costed at $30 million over the forward estimates. How has that cost been arrived at?
2. How many households is this measure expected to encourage to downsize over the forward estimates?
3. What is the assumed increase in the effective supply of housing that this measure is expected to generate?
4. For a couple, what does this measure take their combined maximum concessional superannuation contribution cap to?
5. How does this measure assist a single person or a couple on the age pension to downsize?

Answer:

1. As recorded on Hansard page 75 (29 May 2017), Mr Ewing from Treasury replied the same question from Senator Gallagher. "*The main source we have is the HILDA survey, as that is the only survey which really allows us to look at housing assets at this level of detail. We have used that to calculate the proportion of people who might be downsizing in different groups, and we have used that to calculate the overall value of housing that is downsized and that is eligible for that measure. We then calculate the effects that that movement of the value of that downsizing from a taxed to an untaxed environment will have on tax receipts, and that gives us the $30 million cost over the forward estimates.*"(SQ17-000634 refers).

   The costing primarily reflects the decrease in tax on earnings outside of superannuation, partially offset by an increase in tax on earnings inside of superannuation. There is also a small increase in superannuation co-contribution payments as a result of the increased non-concessional contributions. This impact has been rounded to zero.

2. Based on data from the 2014 Household, Income and Labour Dynamics in Australia (HILDA) Survey, Treasury estimated around 4,000 households are already downsizing per year and will financially benefit from utilising this policy. Treasury did not explicitly model the impact of any additional downsizing arising from the policy, as such money would be moving from one untaxed environment (owner occupied housing) to another (retirement phase superannuation) and thus this behaviour is not expected to have a material impact on revenue. Therefore, Treasury is unable to provide an estimate of the total number of households which are expected to downsize over the forward estimates as a result of this measure.

3. The measure provides an incentive for people to sell houses that no longer suit their needs, freeing up housing stock for younger Australians. As stated in the response to

Question 2, Treasury did not explicitly model the impact of any behaviour change and therefore do not have estimates on the assumed increase in the effective supply of housing that this measure is expected to generate.

4. As concessional contributions cannot be made under this measure, it does not affect a person's maximum concessional contribution cap.

5. It will provide an additional tax concession to retirees choosing to downsize. Any monies contributed into superannuation under this measure will not be exempt from the Age Pension means tests.