Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

20 – 21 October 2010

Question: SBT 60

Topic: AFTS Taxation of Superannuation Contributions and Earnings

Senator Bushby asked:

In BET11, Table 1 answers the first part of this question. Can you provide a detailed explanation as to where these costs arise and how is it anticipated that they will manifest in the quantum to which that table alludes?

Can I also confirm, my reading of the information in tables 2 & 3 is that implementation of the AFTS proposals 18 & 19 will result in substantially higher national savings and superannuation assets than will an increase of the SGC to 12%, between now and 2029?

Does this mean that there would be more saved in Australians superannuation accounts under the proposal of the AFTS, than under the 12% proposal?

At the last estimates, it was noted that the *savings offset*, that is the reduction in private contributions made to super due to the fact more is being put away under the SGC is of the order of 30%.

How would savings offset compare between the AFTS proposal and the 12% proposal?

And would the higher savings offset for people on higher incomes also be observed under the AFTS proposal?

Data sets reveal a fall in the total value of super funds caused in many cases by sagging levels of contributions – eg APRA data suggests that during the year ended 30 June 10 net superannuation contribution flows slipped by 4.7%

Is this a reflection that many super investors have lost faith in stable and bi-partisan super policy and believe that government will spring surprises such as the savage reduction in contribution levels from 100k to 50k and 50k to 25k?

Does the ATO think savers have looked to save their money in assets other than super and that in part, this is because the instability in super policy over the past 3 years means they are concerned about what might happen the next time the government needs revenue? Is this part of it?

Does the ATO think the up to $1m guarantee on bank deposits not available to superannuation funds played a role in the fall in super contributions?

What about the instability caused by the rolling reviews – has this sent negative signals to investors?

Answer:

The overall costs of AFTS recommendations 18 and 19 as set in Table 1 of BET 11 reflect a number of components. For recommendation 18 there were gains to revenue and lower expenses due to taxing concessional contributions at marginal rates less the proposed 20% rebate (revenue gain), removal of the spouse super contributions rebate (revenue gain) and from removal of the government co-contribution (expense save). However these gains were more than offset by the loss of contributions tax and the cost of applying the proposed 20% rebate to non-concessional contributions as well as concessional contributions.

For recommendation 19 the cost arose from halving the earnings tax rate while still providing imputation credits in full. The cost indicated allowed for some new taxation of the pension phase at the proposed lower rate (rather than current zero rate).

Tables 2 and 3 indicate that implementation of AFTS recommendations 18 & 19 would result in higher national savings and superannuation assets between now and 2029 than would result from an increase of the SG to 12%, Thus superannuation account balances would be higher under the AFTS proposals.

This modelling result reflected a number of factors. The lower earnings taxes in AFTS recommendation 19 result in higher balances. The removal of contribution taxes means more in superannuation accounts. As an example, with AFTS recommendation 18, an individual with just 9% SG had the equivalent contribution rate of around a 10.6% contribution rate with the current 15% contribution tax.

The savings offset for the SG increases was set at 30%. Because of the different impact of the AFTS proposals on take-home pay lower savings offsets have been applied in this modelling. Nonetheless under both proposals we expect higher savings offsets for people on higher incomes.

Treasury's analysis of recent trends is that both superannuation contributions and other Australian household saving rates remain strong overall. Policies will affect contributions in individual years, such as the special superannuation contribution opportunities in 2006-07 which led to a record high inflow in that year.