Parliamentary Budget Office

How the taxation of superannuation affects welfare and the budget

Australian Conference of Economists
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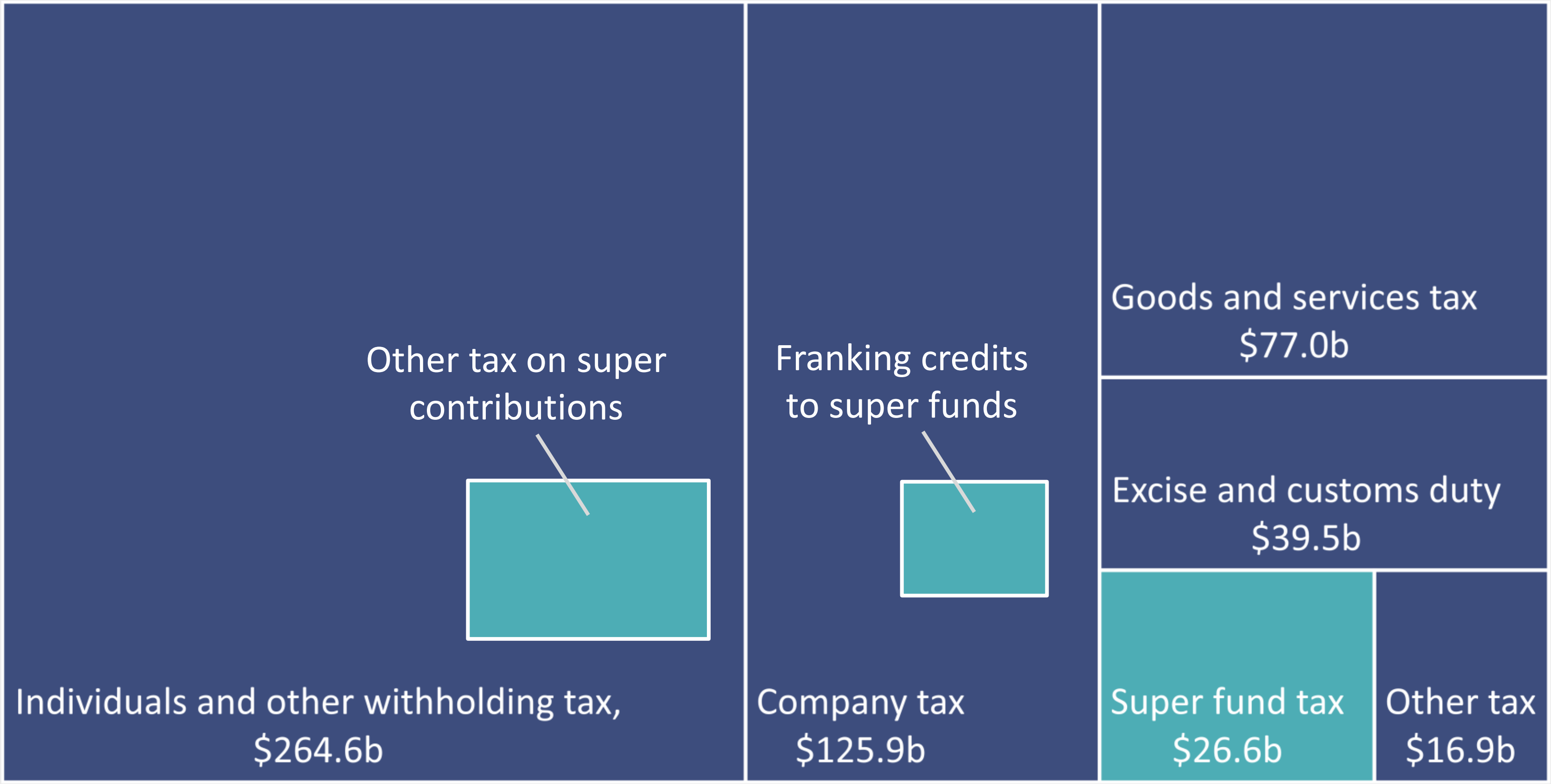
Cameron Chisholm
Parliamentary Budget Office

www.pbo.gov.au

Why we should care about super tax

Australian Government tax receipts, 2021-22 (total: $550b)



Outline

Assessing super tax against 3 principles

Efficiency

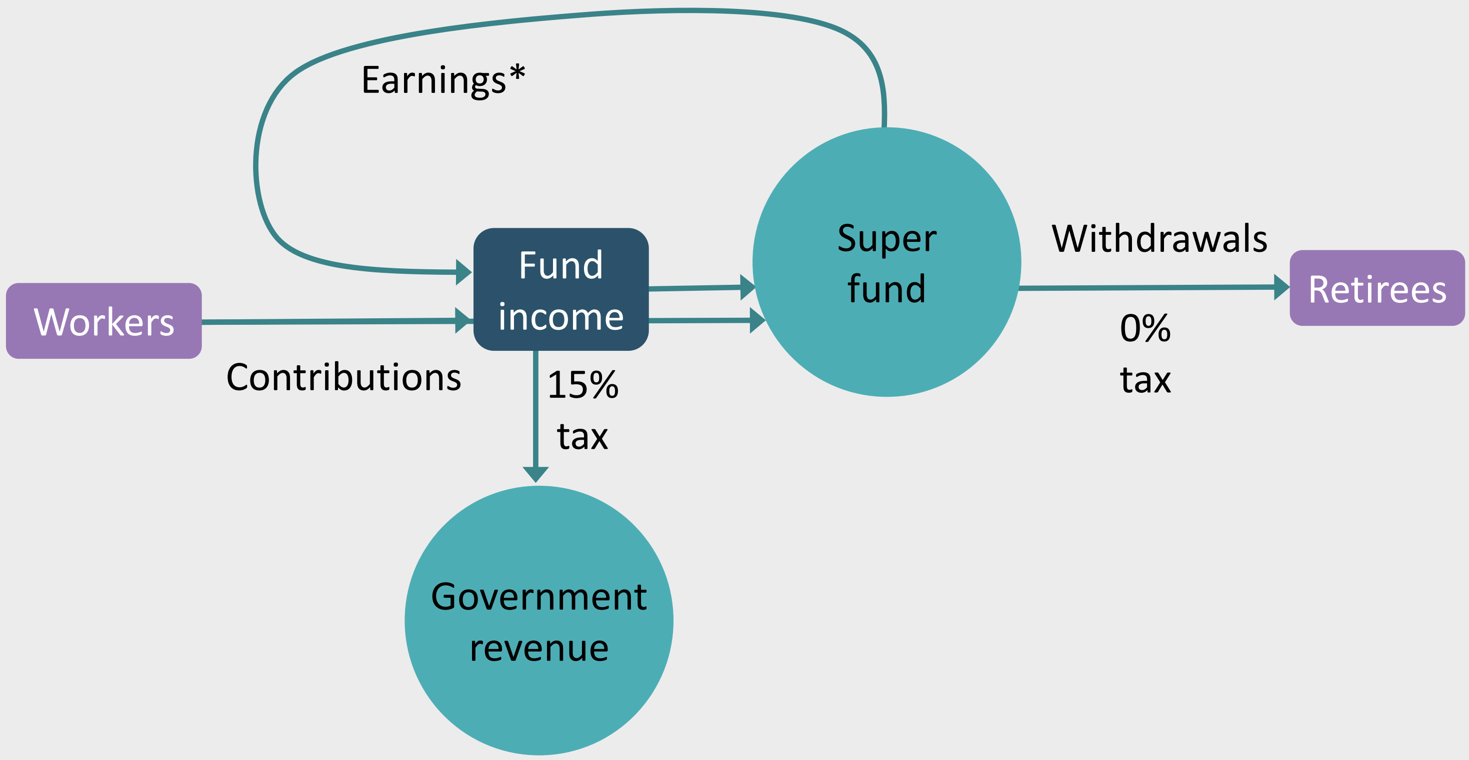
Equity

Sustainability

Intro: how is super taxed?

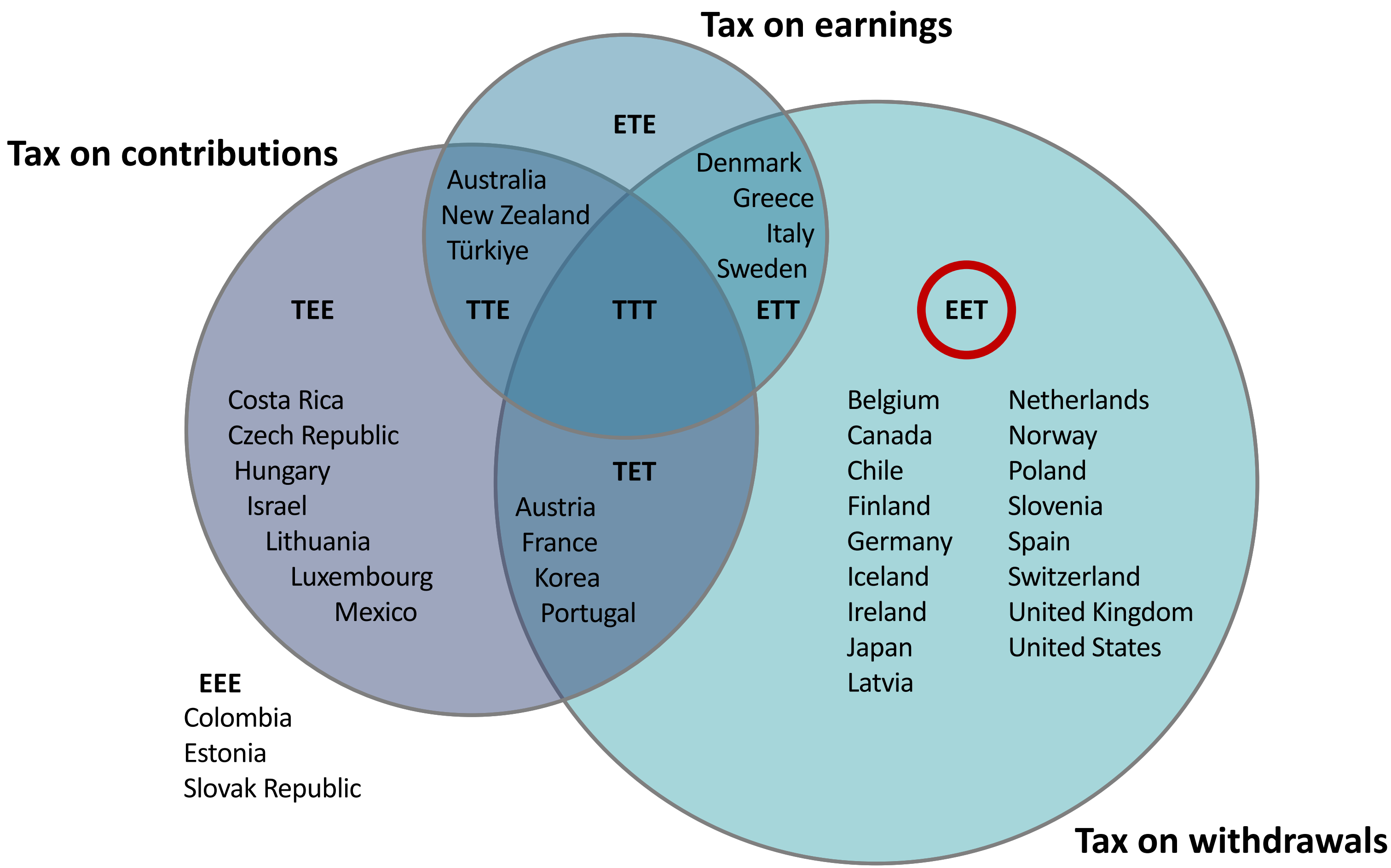
3 potential tax points

- Contributions **t**
- Earnings **t**
- Withdrawals **E**



* Retirement earnings are untaxed

Most OECD countries tax withdrawals



Source: PBO analysis of OECD (2022)

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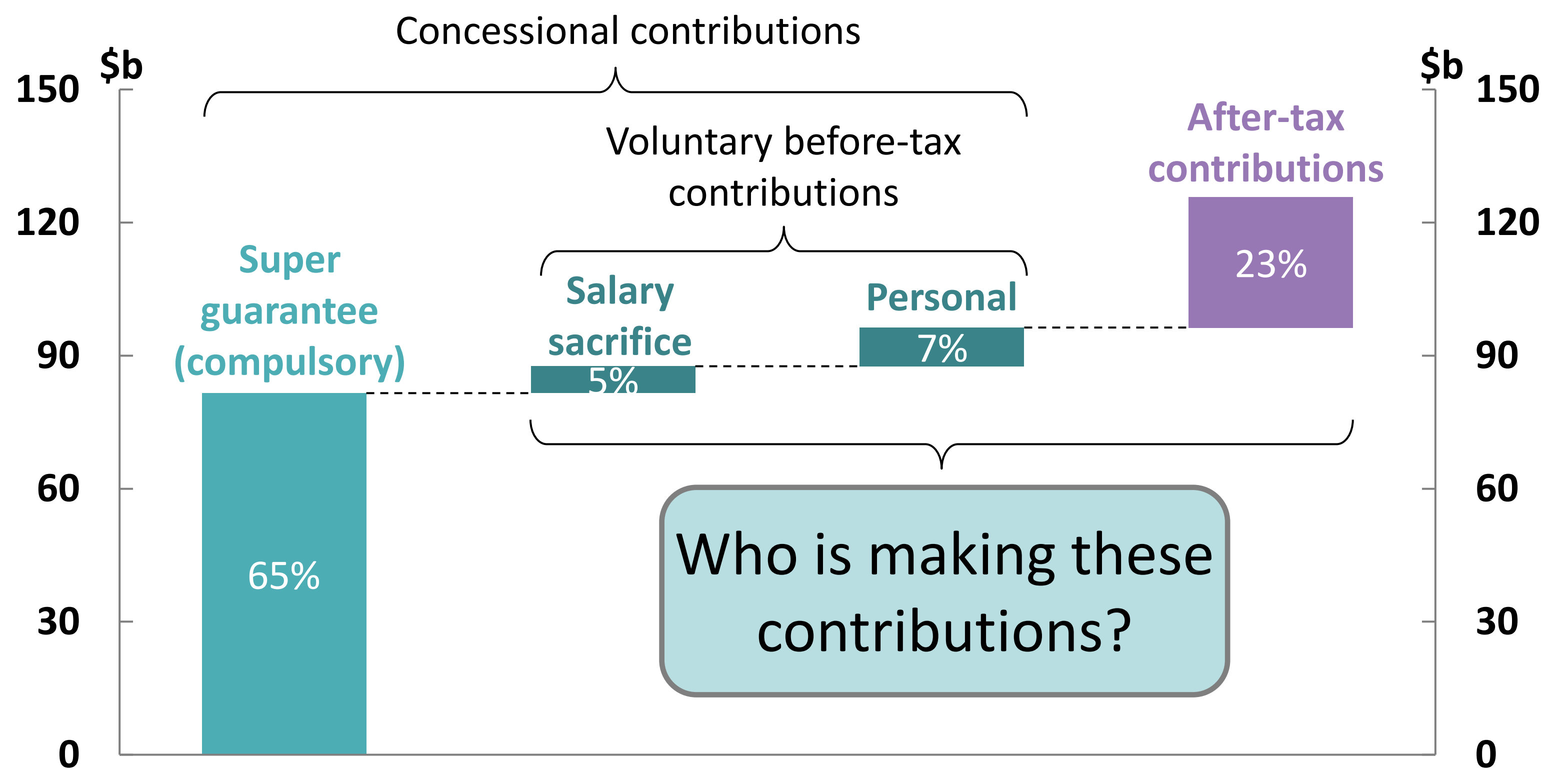
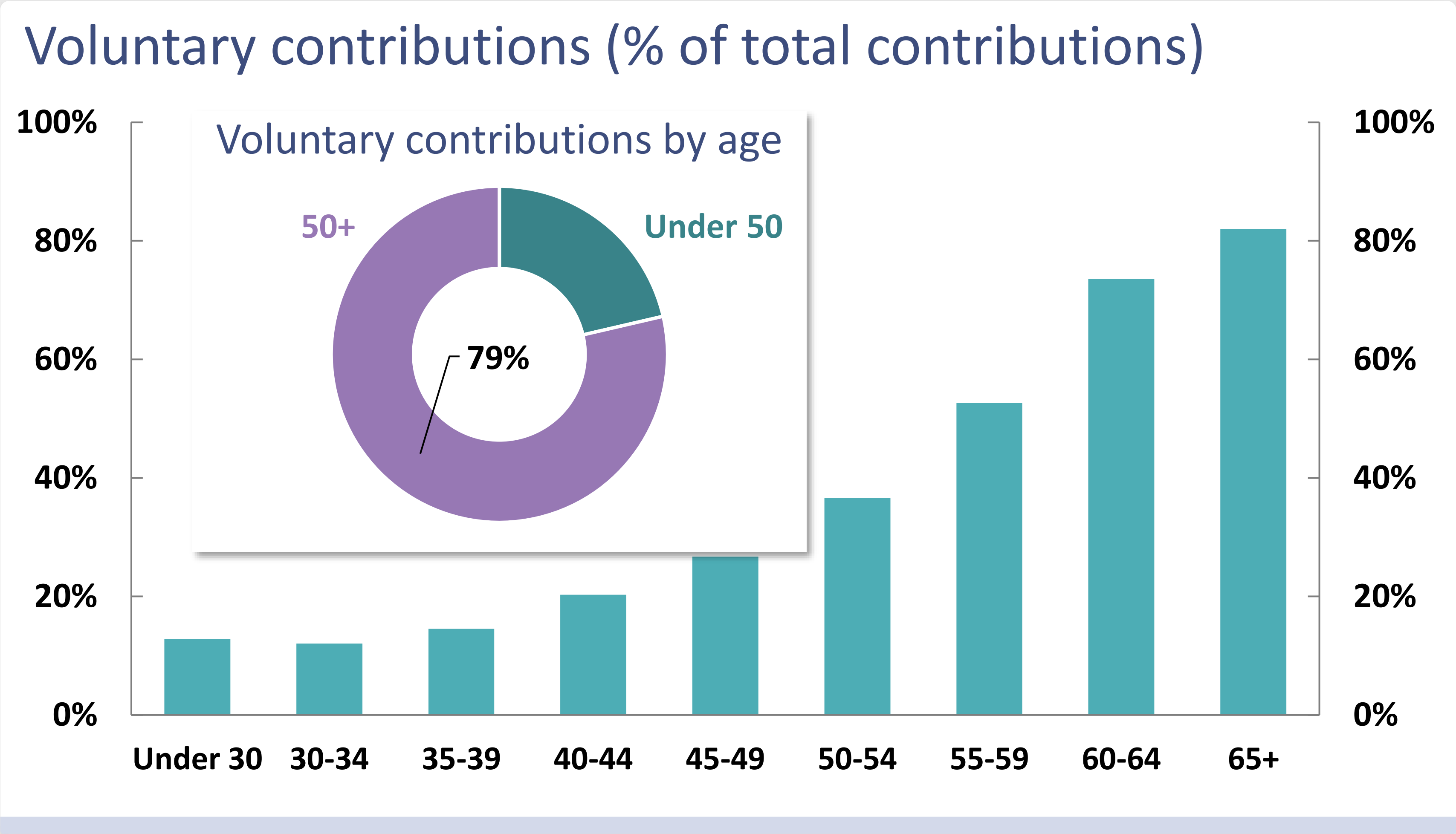
Most contributions are compulsory

Super contributions by type, 2019-20



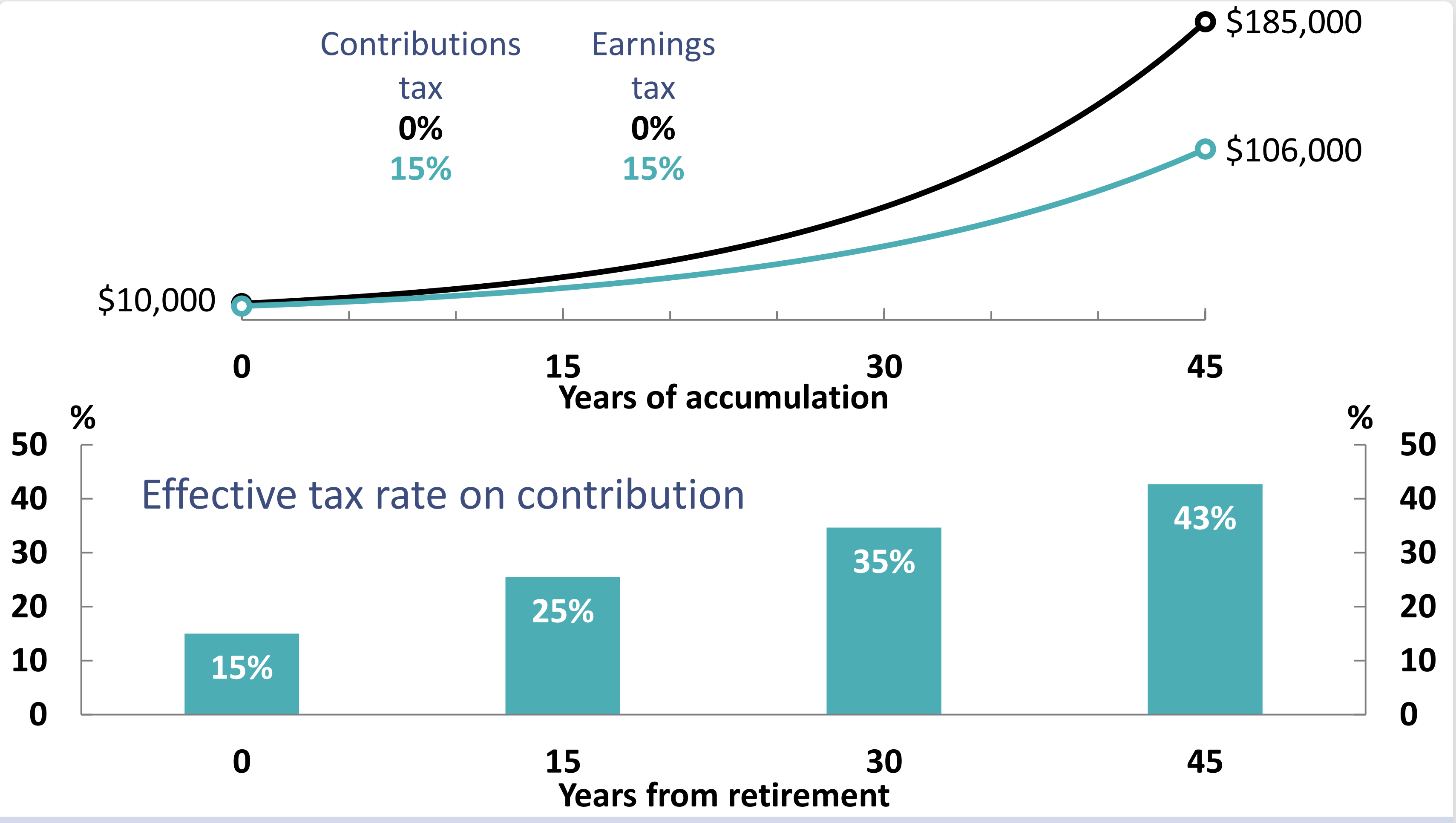
Note: excludes contributions to defined benefit funds
Source: PBO analysis of APRA (2023) and ATO (2022)

Voluntary contributions are overwhelmingly made by those approaching retirement



Source: PBO analysis of ATO (2022) and ABS (2022)

How does super tax affect the accumulation of savings?



Note: values presented in nominal terms
Source: PBO analysis

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- How do super taxes distort investment decisions?

Taxes favour contributions closer to retirement

Equity

Sustainability

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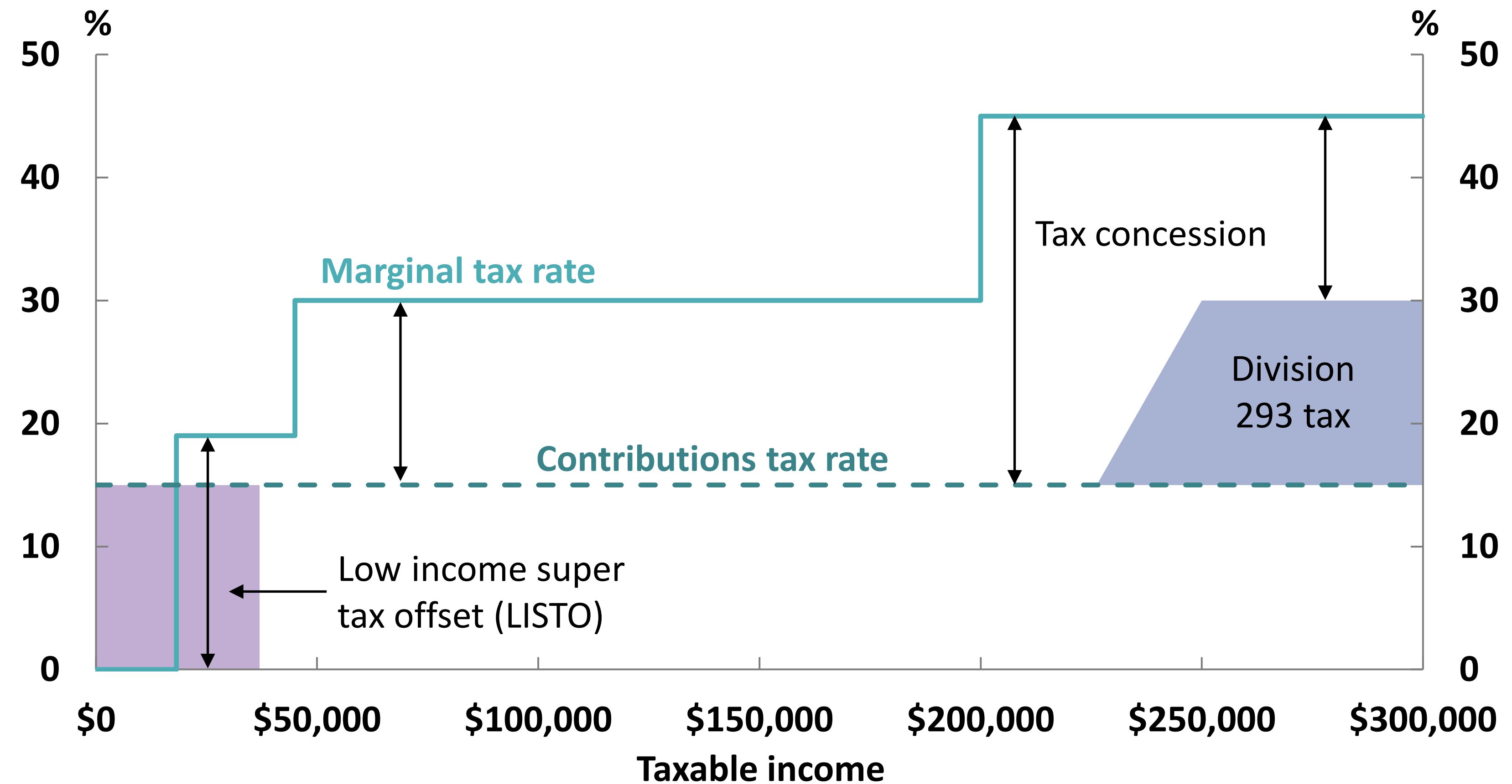
Super tax concessions look regressive

Tax rate on income and super contributions, 2024-25



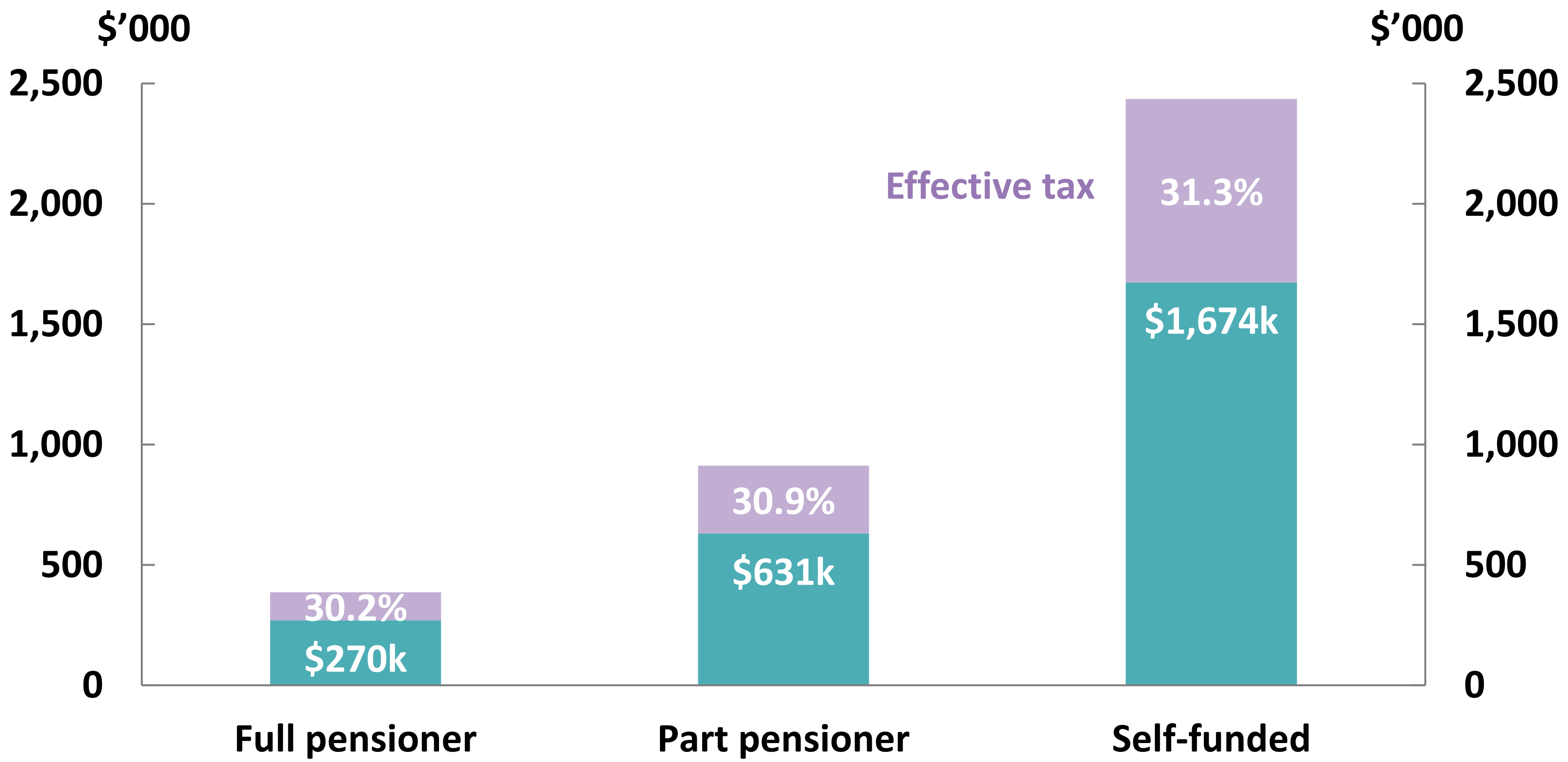
Note: excludes levies and offsets
Source: PBO analysis of ATO (2019, 2021)

Consider 3 retirement scenarios

Assumptions	Full Age Pensioner	Part Age Pensioner	Self-funded retiree
Super			
Super guarantee		**12%**	
Super tax		All current rules apply, caps indexed to CPI (2.5%)	
Accumulation		**45 years**	
Starting salary	Minimum wage	+40%	+80%
Salary growth	4%	5%	6%
Employment	Mix of FT, PT, not in LF	Full-time	Full-time
Voluntary contributions	None	5 years	15 years
Earnings		Earnings: 5%, Capital gains: 1.8%	
Retirement		25 years	
Age pension	Full	Part, increases to full	None
Demographic		Single, homeowner	
Earnings		Earnings: 3.7%, Capital gains: 1.3%, Retirement income growth: 3.5%	

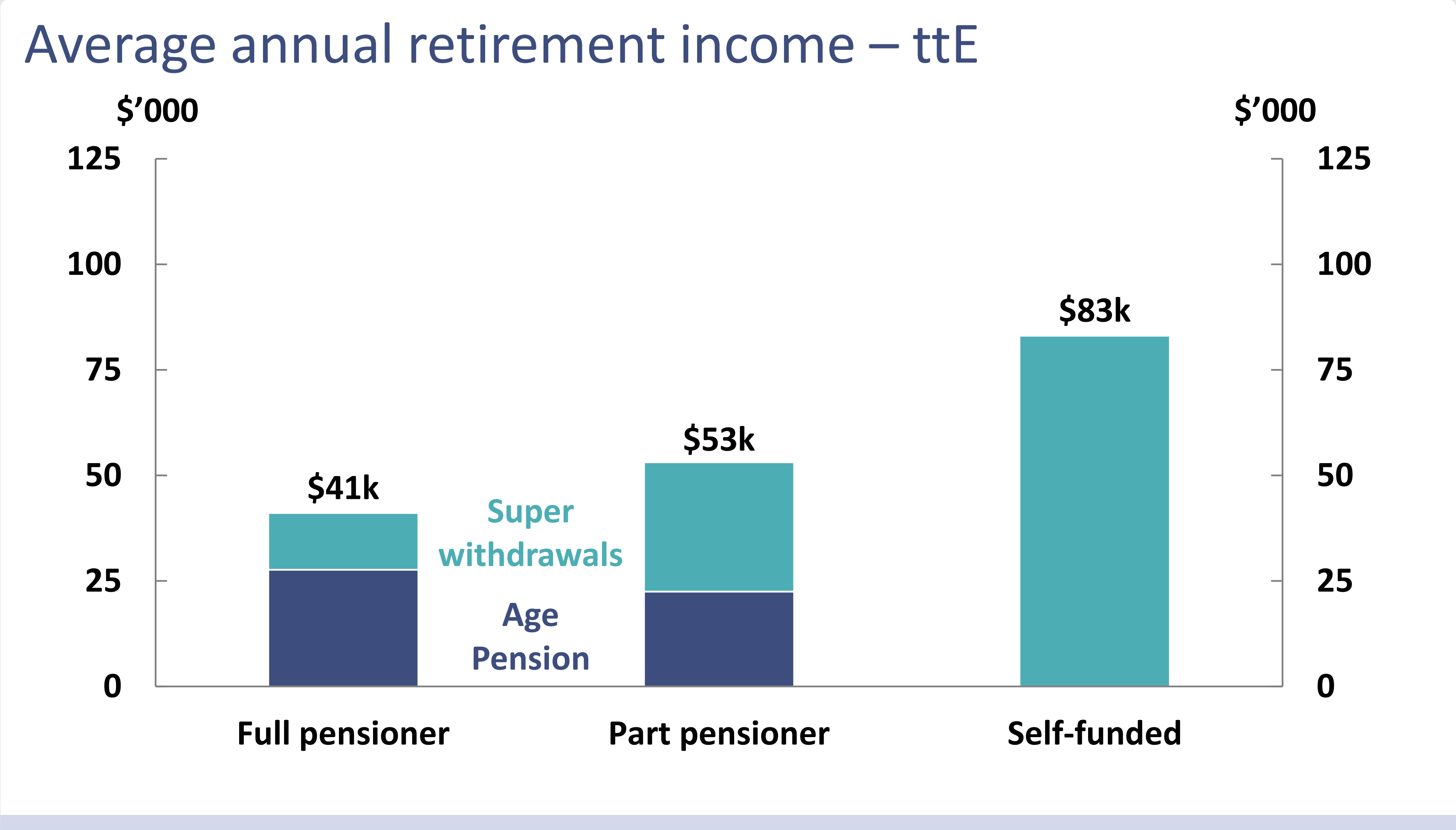
The effective tax rate on retirement balances is similar across the 3 scenarios

Super balance at retirement



Source: PBO analysis

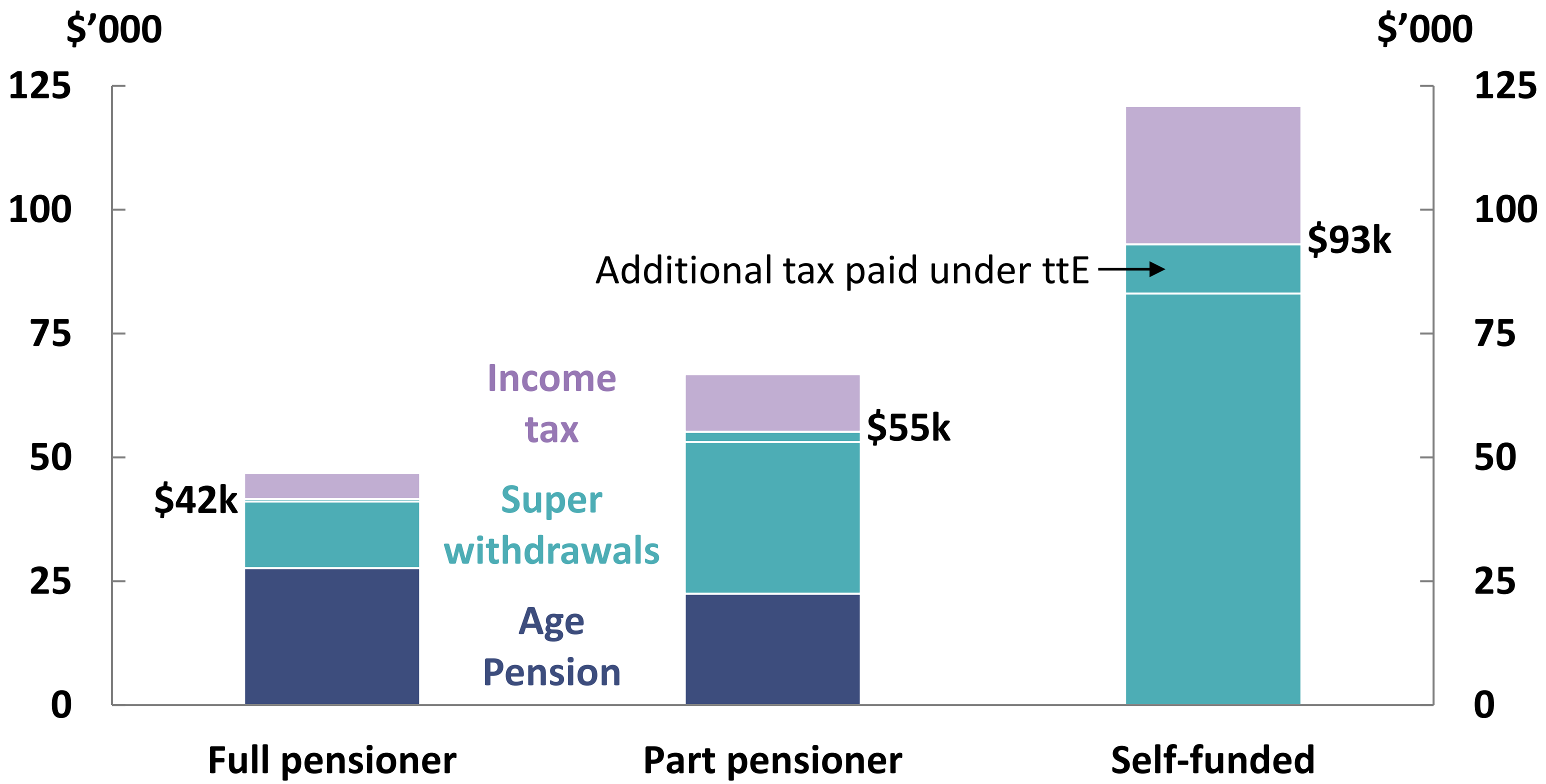
The Age Pension increases equity in retirement incomes



Source: PBO analysis

How does EET compare?

Average annual retirement income – EET (marginal rates)



Note: Tax calculated using 2024-25 rates
Source: PBO analysis

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- Is ttE less progressive than EET?

ttE more progressive with Age Pension

Sustainability

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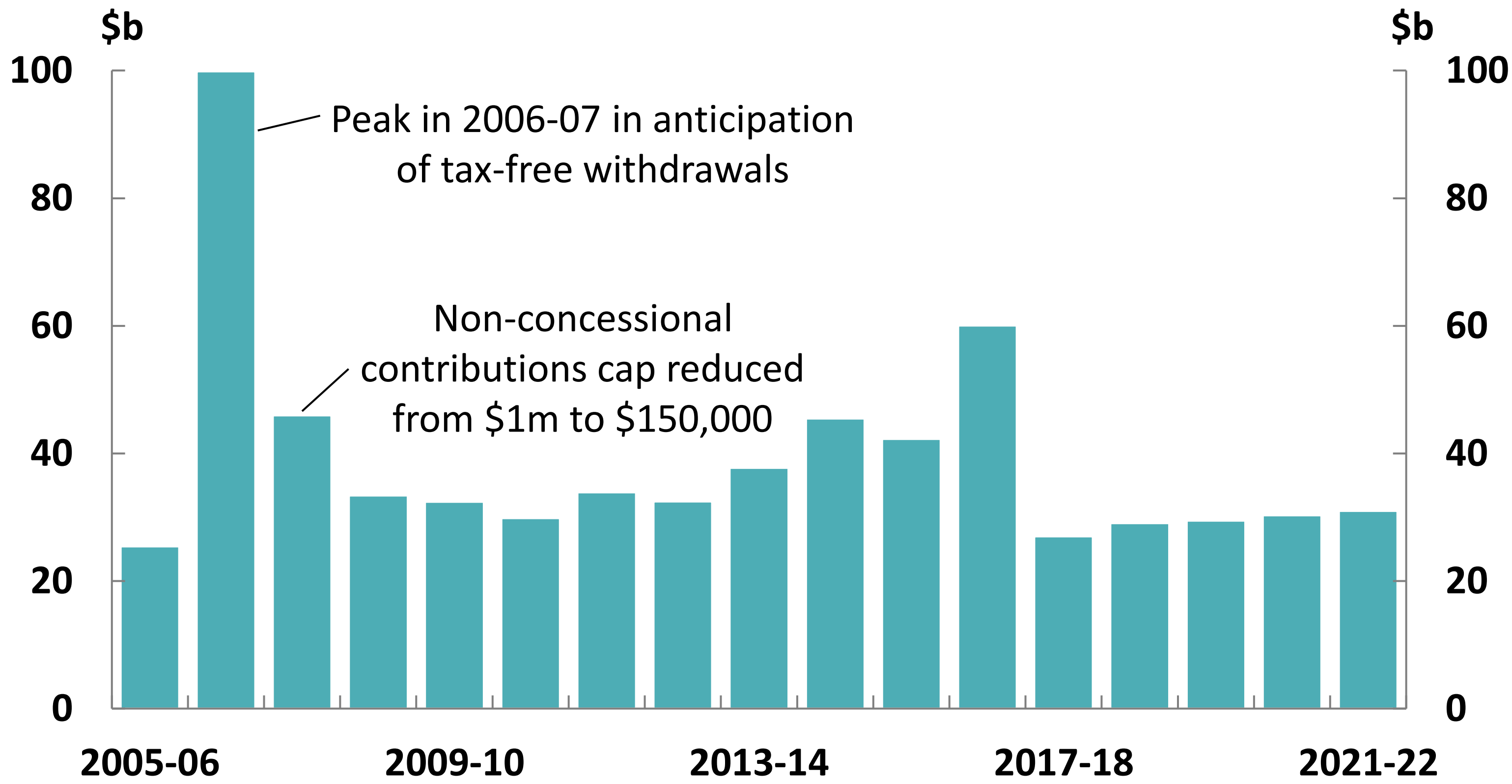
Super withdrawals in retirement were taxed prior to 2007

	Lump sum withdrawals	Pension stream withdrawals
Prior to 1 July 2007	Tax free threshold 15% above threshold Personal rates above *Reasonable benefit limit*	Personal rates less 15% discount Personal rates above *Reasonable benefit limit*
After 1 July 2007	Tax free	Tax free

In 2006-07, individuals could put up to a million dollars into their super accounts (after tax)

Non-concessional super contributions



Source: PBO analysis of APRA (2023) and ATO (2022)

Most super tax reforms after 2007 have limited maximum contributions or tax concessions

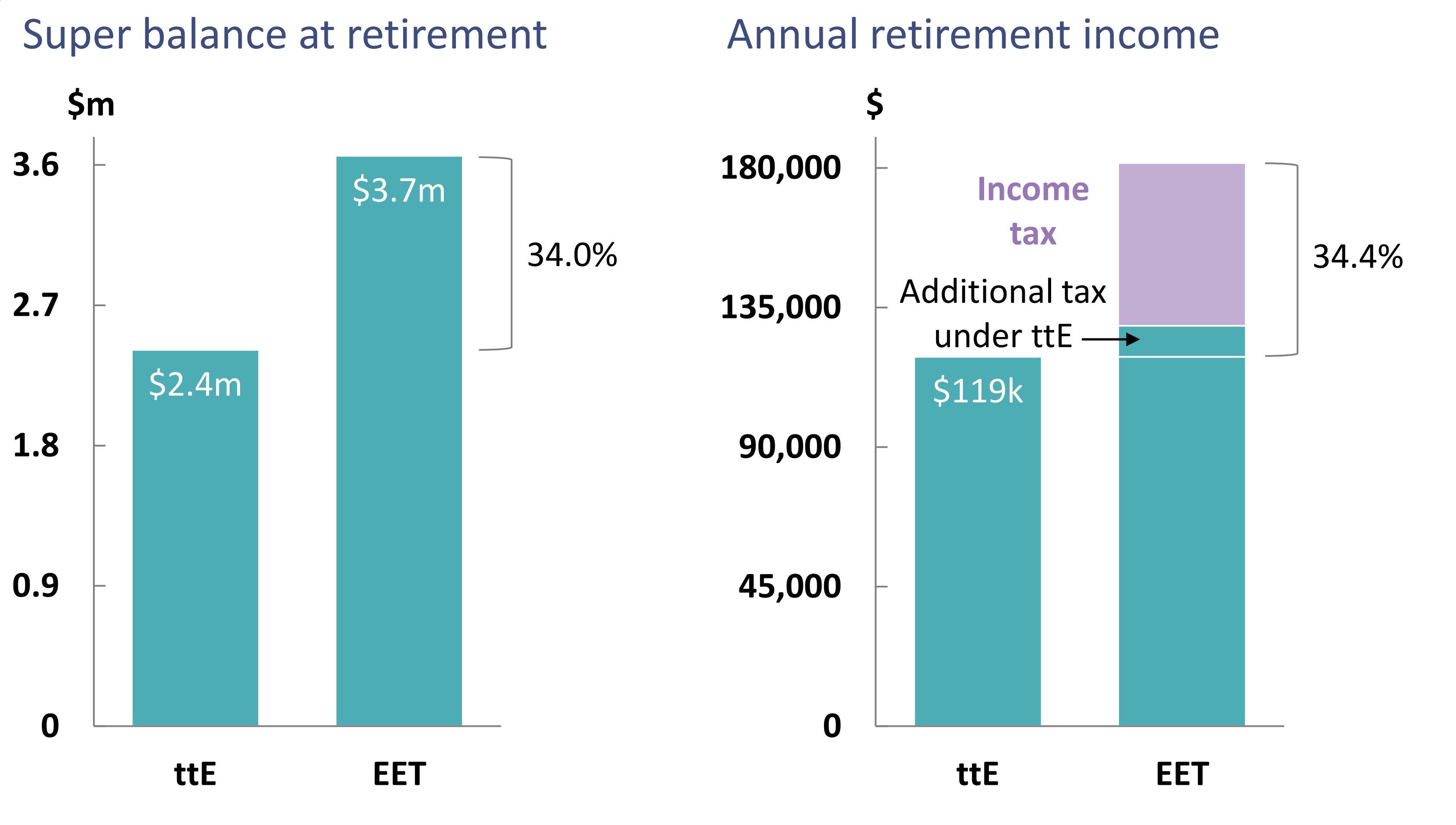
2012-13	**Division 293 tax**: additional 15% on contributions for high-income earners
2017-18	**Transfer balance cap** of $1.6 million (no non-concessional contributions above limit, limit on how much can be in tax-free pension phase)
2007-08 to 2017-18	**Concessional cap** ↓ to $25,000 **Non-concessional cap** ↓ to $100,000
2025-26	Minimum 30% tax on earnings for **balances above $3 million** (announced, not legislated)

How much super is it possible to save under today's rules? 2 scenarios

Assumptions	Tax minimiser	Balance maximiser
Working life	45 years	45 years
Retirement	25 years	25 years
Concessional contributions	**Maximum ($27,500)**	**Maximum**
Non-concessional (after-tax) contributions	None	**Maximum* ($110,000)**
Tax		
Contributions	15%	15% + Div. 293 (15%) 47% on after-tax cont.
Earnings	15% (10% capital gains), 30% on balance > $3m	15% (10% capital gains), 30% on balance > $3m
Indexation and growth	All caps indexed to CPI	All caps indexed to CPI
Accumulation	Earnings: 5%, Capital gains: 1.8%	Earnings: 5%, Capital gains: 1.8%
Retirement	Earnings: 3.7%, Capital gains: 1.3%, Income growth: 3.5%	Earnings: 3.7%, Capital gains: 1.3%, Income growth: 3.5%

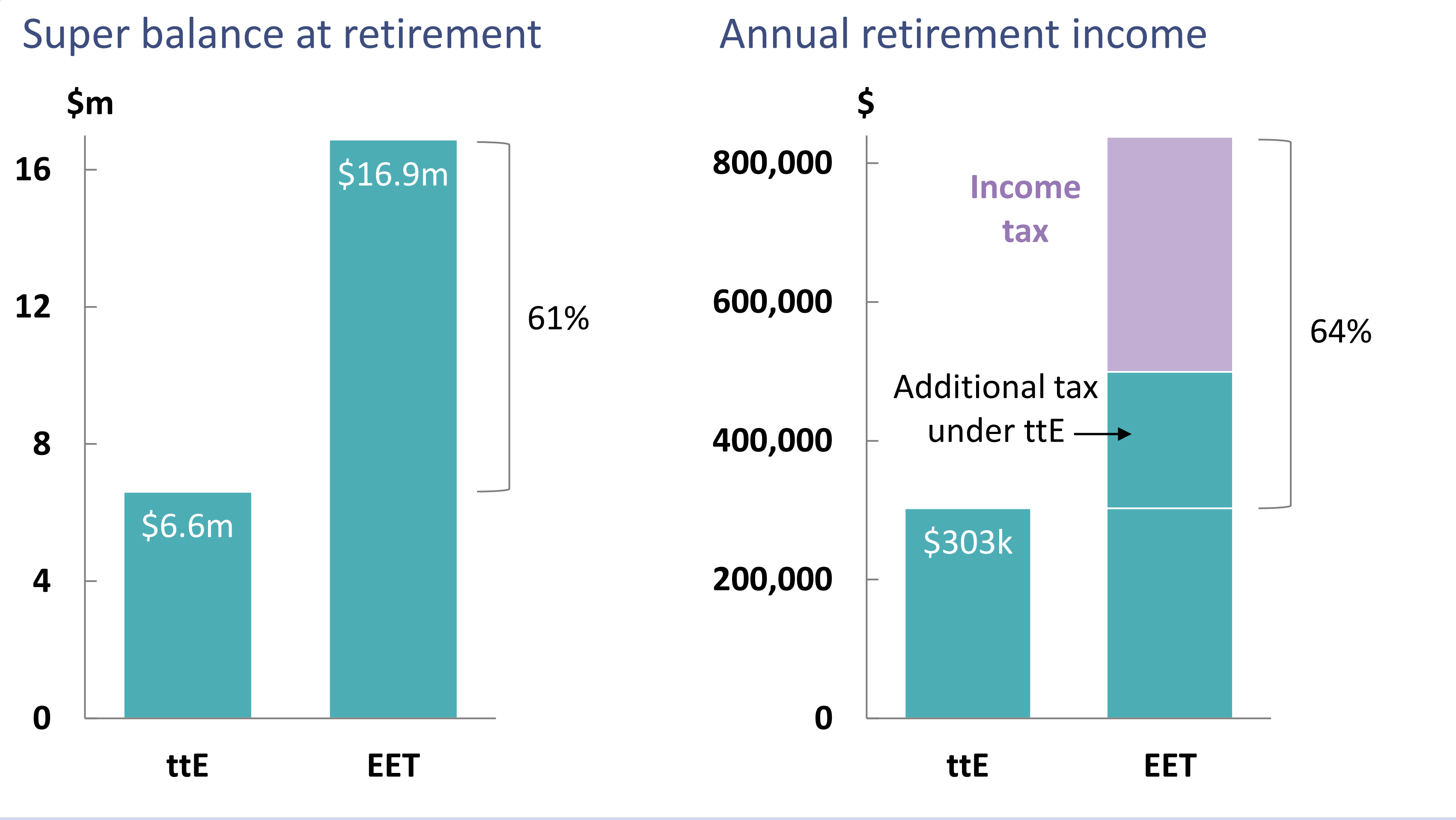
* No non-concessional contributions can be made once balance reaches *transfer balance cap* ($1.9 million)

How much super is it possible to save under today's rules? *Tax minimiser*



Note: Tax calculated using 2024-25 rates
Source: PBO analysis

How much super is it possible to save under today's rules? *Balance maximiser*



Note: Tax calculated using 2024-25 rates
Source: PBO analysis

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- Super: tax haven for the wealthy?

Less so in recent years

Conclusion

Assessing super tax against 3 principles

Efficiency

- Issue of alignment of taxes and timing of contributions

Equity

- Super taxes consistent with equity in retirement income system

Sustainability

- Recent reforms mean larger balances involve higher taxes

Thank you

Parliamentary Budget Office

How is super taxed?

PBO budget explainer, 27 April 2023

Contents

The contents of this explainer are the sole responsibility of the Parliamentary Budget Office (PBO).