

APPENDIX A: EXPERIMENTAL ESTIMATES OF SUPERANNUATION TAX EXPENDITURES USING AN EXPENDITURE TAX BENCHMARK

The Tax Expenditure Statement uses a comprehensive income tax benchmark to estimate the value of tax expenditures on savings, including superannuation. As discussed in Chapter 1, there is interest in the question of whether using an expenditure tax benchmark, either in addition to the income tax benchmark or as a replacement, would be appropriate.

- Under a comprehensive income tax benchmark, contributions and earnings are taxed at marginal rates, while benefits are exempt from tax. Under an expenditure tax benchmark, contributions are taxed at marginal rates, while earnings and benefits are exempt from tax.

To facilitate discussion and understanding of the impact of utilising different benchmarks, Table A1 presents selected experimental estimates of revenue forgone tax expenditures for superannuation tax arrangements under an expenditure tax benchmark. Care needs to be taken when comparing estimates generated using an expenditure tax benchmark with estimates generated using an income tax benchmark since they measure the value of the revenue forgone against different default tax treatments.

Table A1: Experimental estimates of the revenue forgone tax expenditure for superannuation assessed against an expenditure tax benchmark

	2013-14	2014-15	2015-16	2016-17
	\$m	\$m	\$m	\$m
Taxation of employer contributions (same as C5)	16,000	17,800	19,150	20,700
Taxation of personal/self employed contributions (same as C8)	670	770	900	950
Taxation of unfunded superannuation (same as C7)	490	500	520	540
15% tax on earnings in accumulation phase	-4,700	-5,050	-5,350	-5,750
10% tax on capital gains in accumulation phase	-1,100	-1,700	-2,100	-2,550
0% tax on earnings (including capital gain) in pension phase	0	0	0	0
Measures for low-income earners (same as C9)	130	180	55	35
Tax on funded lump sums (same as C12)	-250	-260	-280	-290

The key components of the tax expenditure relate to contributions and earnings. The tax expenditure on contributions is the same as against the comprehensive income tax benchmark. The tax expenditure on earnings in the accumulation phase is markedly different; instead of a positive tax expenditure, reflecting the difference between marginal tax rates of individuals and the concessional tax rate charged on

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superannuation; the tax expenditure is negative reflecting the difference between the tax rate charged on superannuation earnings and the zero rate in the benchmark.

- Consequently, the tax expenditure 'Superannuation – concessional taxation of superannuation entity earnings' (C6) under an income tax benchmark is estimated to be worth \$16.1 billion in 2013-14 (see page 101).
- This tax expenditure under an expenditure tax benchmark is estimated to be worth -\$5.8 billion in 2013-14 (that is, the total of rows four, five and six in Table A1 above).

In comparison, owner-occupied housing has a zero tax expenditure against an expenditure tax benchmark. Owner-occupied housing is purchased from fully taxed income and the return on housing (incorporating imputed rent and capital gains) is tax free.