Appendix B

Superannuation benefits

B.1 Scope

This Appendix sets out the estimated tax expenditures related to the superannuation system for 1998-99 to 2001-02 and forward projections for the following four years. It also briefly examines some conceptual issues relating to the interpretation of these estimates.

Superannuation in Australia is taxed at a concessional rate at three stages against the remuneration and saving benchmark:

- when contributions are made to a superannuation fund (by an employer or a member);
- when investments in superannuation funds earn income; and
- when unfunded superannuation benefits are paid out.

The overall taxation regime remains concessional and in each year the estimated benefits to those with superannuation is calculated against the relevant benchmark. This benchmark has been summarised in chapter 3.

The calculation requires projections of contributions, earnings and eligible termination payments (ETPs). The estimates use Australian Taxation Office and RIMGROUP[1] projections of contributions, earnings and payouts. They also assume that tax is collected from superannuation funds in the year in which the contributions and earnings occur.

1 RIMGROUP is the model used by Treasury's Retirement and Income Modelling Unit to project superannuation fund contributions, earnings and payouts as well as related retirement income, social security and taxation aggregates.

B.2 Interpretation

The estimate of the tax expenditure in the forward projections is not necessarily indicative of the cost of the superannuation concessions over the long term:

- the taxes on superannuation pensions and lump sums could be expected to provide a greater offset to the cost of the under-taxation of contributions in future years, when there are larger numbers of taxpayers drawing down their superannuation savings relative to the numbers in the accumulation phase; and

- the current superannuation tax concessions will have an (intended) impact on certain direct budgetary expenses in future years, particularly age pension payments.

Further, the estimates in Table B1 cannot be interpreted as a time series of the ongoing revenue savings that could be obtained if the superannuation concessions were eliminated. This is because the increase in tax revenue arising from the elimination of the tax expenditures with respect to a particular year would cause the superannuation tax base to be smaller for the next year. For example, if contributions and fund earnings in 2001-02 had been taxed according to the retirement benefits benchmark, superannuation fund assets, and hence fund earnings, would be lower in 2002-03 than if the concessional tax treatment had applied in the previous year. The cost of taxing fund earnings concessionally in 2002-03 would, in these circumstances, be lower than if the superannuation concessions had applied in 2001-02.

In addition, the estimated cost of the tax expenditure on retirement and other employment termination benefits assumes no behavioural change involving either the superannuation portfolio composition or the saving rate. To the extent that this is an unrealistic assumption, the budgetary cost of these concessions will be overestimated.

B.3 Estimates

Table B1 provides detailed superannuation tax expenditure estimates. These tax expenditures are reported collectively as ‘concessional treatment of superannuation’ in Table 5.1 (tax expenditure reference code B1).

These estimates are generally comparable with those published in the 2001 TES. New policy measures, such as higher deductions for the self employed, have been incorporated into the estimates. Each year there are also variations arising from the revision of earnings estimates. The taxable earnings of superannuation funds are not readily predictable. A major reason is that it lies within the discretion of a fund manager to decide when any accrued capital gains of a fund are realised. In addition, the earnings series is intrinsically volatile, reflecting fluctuations in interest rates and dividends.

Fund earnings have been ‘smoothed out’ for the forward projections as this is considered to provide a better indication of the cost of the tax expenditure over time.

Table B1: Estimated tax expenditures through superannuation tax concessions, 1998-99 to 2005-06

	1998-99 ($m)	1999-00 ($m)	2000-01(a) ($m)	2001-02(a) ($m)	2002-03(a) ($m)	2003-04(a) ($m)	2004-05(a) ($m)	2005-06(a) ($m)
Costs								
1 Under taxation of employer contributions(b)(c)	4530	4880	4460	4650	5280	5640	6010	6320
2 Deduction for self-employed/unsupported	210	230	190	190	190	200	200	200
3 Under taxation of fund earnings	5220	5180	4680	4420	4680	4960	5240	5580
4 Under taxation of unfunded lump sums(d)	520	520	450	450	450	450	450	450
5 Measures for low income earners(e)	15	10	10	10	10	25	25	25
6 Spouse contributions and rebates	10	10	15	15	15	15	20	20
7 Frozen indexation and CGT discounts for funds	-	-	340	380	390	410	420	440
Sub-total(f)	10505	10830	10145	10115	11015	11700	12365	13035
Offsets								
8 Tax on funded pensions	(g)	(g)	(g)	(g)	(g)	(g)	(g)	(g)
9 Tax on funded lump sums before 1/7/83	25	25	20	20	20	20	20	20
10 Tax on funded lump sums from 1/7/83	380	400	310	330	340	360	380	400
11 Allow temporary residents access to super	-	-	-	-	70	110	75	70
Total offsets	405	425	330	350	430	490	475	490
Total tax expenditures	10100	10410	9820	9770	10590	11210	11890	12550

(a) Includes the new personal income tax rates under *The New Tax System* that became effective from 1 July 2000.
(b) Includes the revenue impact of the surcharge on superannuation contributions for high income earners.
(c) Includes changes to FBT which require employers to identify on group certificates the grossed-up taxable value of fringe benefits, starting in the 1999-2000 income year, for determining the liability for tax surcharges such as the superannuation contribution surcharge.
(d) Non-superannuation benefits are reported as a separate tax expenditure (B2) in Table 5.1 and are not included in this table.
(e) For years up to 2002-03 this line shows the level of the tax rebate available to low income earners who made personal contributions. From 2003-04 the line shows the impact of the government co-contribution being untaxed.
(f) Totals may not sum due to rounding.
(g) Indeterminate, but unlikely to be significant.