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Tax Expenditure Statement Consultation
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ASFA submission in regard to the Treasury consultation on the Tax Expenditures Statement (TES)

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the consultation paper published by Treasury in regard to the presentation and contents of the TES.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $2.3 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 14.8 million Australians with superannuation.

The importance of accurate and relevant tax expenditure estimates

Figures relating to the cost to revenue of superannuation tax concessions are often used in public debate and commentary, usually by those who would like to scale back those concessions and/or pursue other programs. The estimates that are used can impact on the perception of superannuation by both policy makers and the public and hence on the direction of future reforms and changes.

Given the crucial role played by tax concessions in attracting voluntary savings for retirement and maintaining public acceptance for compulsory private retirement saving, it is important that accurate and meaningful estimates are calculated and disseminated. Superannuation has a key role in meeting the retirement income expectations of what is a demanding “baby boomer” generation and in containing future Age Pension costs of government.

If misleading estimates gain currency then there would be a danger that changes to the tax system might be made which undermine private savings and the role of superannuation. This would be an unsatisfactory outcome for Australia given the role of saving through superannuation in supporting investment in Australia and in providing the necessary financial support for an ageing population.

The Treasury in the TES documentation sets out limitations of the methodology used. However, these limitations are seldom acknowledged in public debate, and ASFA considers that other theoretically sound approaches to estimating tax expenditures have not been given the attention that they deserve.

The appropriate theoretical approach for calculating tax expenditures relating to household savings

Superannuation, for all its complexity, essentially is a form of saving. The default tax treatment of savings under our income tax laws is that applied to a simple bank deposit held outside superannuation: the deposit is made out of fully taxed income; the interest is taxed at the individual's full marginal rate; and there is no further tax when the deposit is withdrawn.

This is the benchmark against which the superannuation tax structure (and other forms of saving, such as owner-occupied housing) is compared in the Treasury's Tax Expenditure Statement, with the result that the superannuation system is said to be extremely costly to revenue.

However, this framing of the argument fails to recognise the large disincentive to saving embodied in the benchmark tax treatment. Full taxation of saving as if it were the same as any other type of income imparts a strong bias to consume income today and not savings for the future (and the bias is larger in the case of long-term saving such as super).

The 1993 FitzGerald report on *National Saving* argued "the ideal benchmark for a pro saving tax regime" was an expenditure tax, which taxes income only when it is spent, not when it is saved. However, Dr Vince FitzGerald recommended an expenditure tax approach be pursued only after the Government had lifted the saving performance of the public sector.

By the benchmark of the ideal system, superannuation is tax disadvantaged, along with most other forms of saving - other than the owner-occupied family home. That stands in contrast to the usual depiction of superannuation as tax advantaged. The latter conclusion only holds if an income tax rather than expenditure tax benchmark is used.

The TES uses an approximation of a comprehensive nominal income tax as its benchmark. In this context, 'concessions' seem to be intended to be interpreted by users of the TES as divergences from the ideal tax system.

If a benchmark other than that of a comprehensive nominal income tax system is used, the calculations might indicate that there are no 'concessions'. In essence, the use of a less than ideal benchmark can artificially pump up estimates of the 'concessionality' of the tax treatment of super.

Responses to specific questions in the consultation paper

Questions 1 to 3

ASFA does not have any strong views on what should be the precise annual threshold and frequency of reporting for relatively small expenditures. However, it might be reasonable to only prepare estimates every three years for tax expenditures of, say, less than $20 million a year.

ASFA agrees that it would be far more productive to focus on the magnitude of the handful of largest tax expenditures and to provide greater documentation on such tax expenditures. This could include exploration of alternative approaches to calculating some tax expenditures, such tax provisions relating to various forms of savings, including superannuation.

Questions 4 and 5

As noted in the commentary earlier in this submission, ASFA considers that a more appropriate benchmark for superannuation tax provisions and other provisions relating to household savings would be an expenditure tax approach. At the very least estimates prepared on a comprehensive income tax basis should be accompanied by estimates prepared on an expenditure tax basis.

Many commentators agree that a comprehensive income tax approach taxes savings too harshly. Preparing tax expenditure estimates on both the existing and suggested bases would provide helpful upper and lower bounds for the tax assistance provided to various forms of savings.

Question 6

ASFA considers that it would be helpful if there were more material published setting out the details of the benchmark tax treatment used or for the alternative benchmark tax treatments that are used.

If in the future, as is suggested by the Government response to House Inquiry Recommendation 6, future editions of the Tax Expenditures Statement report savings tax expenditures against an expenditure tax benchmark, ASFA does not see a need for any third part to develop standards for determining the benchmarks. Treasury is well placed to undertake the technical work involved.

Questions 7 and 8

ASFA considers that the priority for preparing tax expenditures for income from savings against a pre-paid expenditure benchmark should be tax expenditures in regard to superannuation. Superannuation is the main financial asset, apart from the family home, for most individuals and it forms a large part of overall savings of households.

If the preparation of estimates based on an expenditure benchmark was restricted to superannuation tax provisions it would then be feasible to report on that basis annually.

Questions 10 and 11

ASFA considers that greater visibility should be given to the caveats to the TES by listing those caveats adjacent to the estimates of major tax expenditures in the TES. This could include, for instance, information about the alternative benchmarks that can be used in regard to superannuation. Information about current and future savings on budget expenditure on the Age

Pension resulting from superannuation retirement savings supported by tax provisions would be useful in this context.

Speeches and articles by Treasury officials and by Ministers also could be used to better explain the figures in the TES.

Questions 12 and 13

ASFA would support the preparation of a separate technical manual setting out the methodology for calculating estimates for major tax expenditures, such as those for superannuation. It would be very useful if readers of the TES were able to replicate estimates of tax expenditures using available data.

A detailed technical manual would also help in making clear what various underlying assumptions are. For instance, in preparing revenue gain estimates for superannuation assumptions about the treatment of capital gains tax concessions for individuals and the treatment of dividend imputation are very important in the calculation of the estimates. A comprehensive technical manual would assist users of the TES to understand both the strengths and weakness of tax expenditure estimates. It also would allow challenging of assumptions and forecasts in appropriate cases.

While it is unlikely that the methodology would change from year to year, data, assumptions and parameters do change. Publishing the underlying data on an annual basis would be helpful. This would assist users of the TES estimates to evaluate their robustness. For instance, estimates of tax expenditures relating to the investment income associated with superannuation are very much linked to estimates of future investment returns for various asset classes.

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If you have any queries or comments in relation to the content of our submission, please contact me on 02 8079 0809 or by email at rclare@superannuation.asn.au.

Yours sincerely

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Director of Research