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Labor's case for superannuation tax based on double counting

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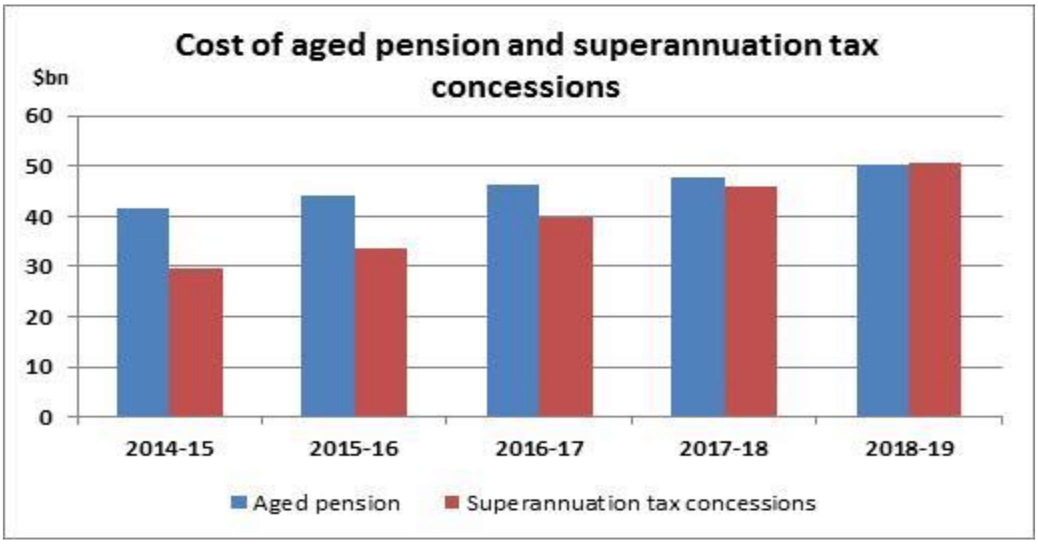
In his Budget response this week, the Shadow Treasurer claimed that the cost to the budget of superannuation tax incentives will equal the cost of the Age Pension in 2018-19.

Not so.

The Shadow Treasurer claimed that the cost of superannuation tax incentives will rise to $50 billion to justify Labor' proposed new tax on superannuation earnings.

To get the $50 billion number the Shadow Treasurer added two numbers that Treasury says should not be added together.



Source: Shadow Treasurer's media release 20 May 2015

This chart in the Shadow Treasure's media release of 20 May adds together $20 billion in estimated tax concessions on superannuation contributions and $30 billion in estimated concessions on superannuation fund earnings. These numbers are from Treasury's 2014 Taxation Expenditure Statement (TES) included in the Budget papers. (2015-16 Budget Paper No 2 – Appendix A: Tax Expenditures)

However, it can't be claimed, simply by adding the two components, that the total cost to the Budget will be $50 billion and this is potentially the saving that could be made if superannuation tax concessions are removed.

They can't be added because they measure different things. If the tax concessions on contributions are removed or reduced so less money flows into superannuation, then the earnings of superannuation funds will also be lower.

The Treasury has warned in the TES that these components should not be added. The Shadow Treasurer has not heeded this warning and so has double counted in arriving at his $50 billion number.

Treasury has also heavily qualified the conclusions that can be drawn from the TES which attempts to measure taxes that are not collected, such as the GST exemptions on food, education and health services, the capital gains tax exemption on people's homes and tax incentives for retirement savings.

Measuring tax that is not collected is a theoretical exercise based on benchmark assumptions. Treasury has pointed out that using different benchmarks – either the 'revenue forgone' or the 'revenue gained' approaches – will produce different results. Treasury says the choice of benchmark involves judgement and may be contentious and that the choice does not indicate a view on how an activity or class of taxpayer out to be taxed.

Recently, a senior Treasury official cautioned that there is no policy message in the TES and warned that the numbers are unreliable and not a measure of what can be saved.

*"When it is reported in the press...there seems to be an inference that simply because there is a large measured tax expenditure, the Government should do something about it. That is not the case. There is no policy message in the Tax Expenditure Statement….We are asked to do an audit, so we do. But be wary on the revenue gain estimates. Don't use them, they are too unreliable. On the revenue foregone (estimates), done according to international best practice, that is not a measure of what is saved. Anyone who says this is not reading the fine print - it's not even in fine print, it's in bold print. Every year when we put it out, we get criticism so I wanted to make it clear." (*Rob Heferen, Executive Director of Treasury's Revenue Group speaking at the SMSF Association conference – February 2015)

In the recent Budget papers, Treasury also cautions that: *"Revenue estimates therefore do not indicate the revenue loss to the Australian Government if specific tax expenditures were abolished, as there may be significant changes in taxpayer behaviour were tax expenditures to be removed." – 2015-16 Budget Paper No 2 – Appendix A: Tax Expenditures*

Here, Treasury is referring to the 'behavioural effect". If superannuation tax concessions are withdrawn, people will find other tax-effective ways of investing. The most obvious of these is the family home which is not taxed. Making investment in superannuation less attractive is likely to add to the pressure on house prices.

However, the different results gained from applying the 'revenue foregone' and the 'revenue gain' is not the main issue here. The key point is that TES numbers for tax concessions on superannuation contributions and fund earnings can't be added together as the Shadow Treasurer has done.

Many in the media, with some exceptions, make the same error. Media references to the $32 billion cost of superannuation tax incentives (based on earlier TES numbers) are frequent and repeated without question or reference to the qualifications that Treasury places on them.

Another common omission by policy makers and commentators is to look at the supposed cost of superannuation tax concessions in isolation without considering the effect on real pension costs if superannuation tax incentives are reduced. Less money would flow into superannuation and this would lead to greater demand for the age pension.

The Opposition's case for applying a new tax to superannuation fund earnings, based on the supposed cost to the Budget of superannuation tax concessions, relies on estimates which Treasury says can't be relied upon for the purpose of making policy.

Contact:

Duncan Fairweather
Executive Director
SMSF Owners' Alliance
dfairweather@smsfoa.org.au
www.smsfoa.org.au