Spurious estimates often trump facts in super debate

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It’s a great line: you are entitled to your own opinions but not your own facts. But when it comes to superannuation, many commentators either prefer to ignore the facts or claim spurious estimates of future superannuation tax concessions are facts, which they are not.

If you believe Chris Bowen, the Australian Council of Social Services, the union-dominated industry superannuation funds and a number of left-wing commentators, there are billions of dollars in superannuation tax concessions lying on the pavement, wasted on high-income people. All the government needs to do is bend over and scoop up the “free” money.

The trouble is the analysis that underpins the supposed existence of this proposition is profoundly flawed. But no amount of warning from the Treasury and its head of revenue, Rob Heferen, appears to deter the proponents of higher taxes on superannuation. However, there is a profound disjunction between Treasury’s estimates of the actual revenue that will be received by way of superannuation taxes and the spurious estimates it puts out in relation to tax expenditures. (A tax expenditure arises where the actual tax differs from a benchmark tax.)

Look at the recent budget papers. In 2014-15, it is expected that superannuation taxes (on contributions and earnings) will raise $6.154 billion. This compares with the December Mid-year Economic and Fiscal Outlook figure of $7.04bn, a drop of 13 per cent. Over the four years ending in 2017-18, super fund taxes are expected to be $1.8bn lower than MYEFO, mainly due to low wage growth.

All this sounds reasonably plausible, but when we turn to Treasury’s tax expenditure statement, the estimates for the revenue forgone on superannuation fund earnings (using income tax as the benchmark) rises from $13.4bn in 2014-15 to $26.8bn in 2017-18.

You have to wonder what the Treasury staff who concoct these future estimates have been smoking. There is an implied annual compound return in excess of 15 per cent on superannuation earnings in these estimates.

But here's the key question: if the earnings are going to be so spectacular, why is this not reflected in the estimates of the superannuation fund taxes? Recall that earnings are taxed at 15 per cent and taxes should skyrocket if these returns on earnings eventuate.

Even allowing for dividend imputation, some major rift is apparent between the Treasury staff putting together the budget numbers and those dreaming up the figures on the value of superannuation tax concessions. One wonders whether the boffins working on the tax expenditure statement actually understand some of the key facts on superannuation. For instance, the government sets a maximum contribution base which limits the amount an employer must pay in terms of super contributions for workers.

The figure for next financial year is a tad over $200,000 a year. This means the maximum an employer is liable to pay for any worker in terms of superannuation is $19,371. Note that the annual concessional contributions cap is $30,000 for those under 50 and $35,000 for older workers.

What this arrangement means is high-paid workers need to salary sacrifice additional money to reach the cap. Of course, if a government decided to impose marginal tax rates on contributions, no one on a middle to high income in their right mind would make any voluntary contributions at all. For a 52-year-old on $250,000 a year, that tax change would mean nearly $16,000 a year less would be contributed to superannuation — a fall of 45 per cent.

But here's another thing: when you look at Treasury's revenue forgone and revenue gain estimates of the tax expenditures on superannuation, with the latter taking into account the behavioural impact of a change to the taxation of superannuation, you don't notice much difference.

For the concessional tax on contributions, for instance, the difference is just over 5 per cent — which looks way too low. The truth is the Treasury has absolutely no idea; saying these figures have low reliability is an understatement. And we need to remind ourselves they are not facts.

At least the Treasury has the humility to note that "care needs to be taken when comparing tax expenditures with direct expenditures as they may be measuring different things". No kidding.

Here's another opinion: the superannuation tax concessions are badly targeted. The alternative point of view is that the superannuation tax concessions are extremely well targeted, providing an incentive for higher-income earners to be entirely self-sufficient in retirement.

At the moment, about 80 per cent of those aged 65 years and over receive a full or part pension. The aim of policy should be to reduce that number by increasing the number who forgo the age pension altogether. This will only be achieved if those in a position to reach that point are provided with appropriate tax concessions.

The analysis of the Institute of Actuaries estimates that about two-thirds of the superannuation concessions are actually received by those earning between $37,000 and $180,000 a year after taking into account the payment of the age pension. This contrasts with the “fact” put out by ACOSS that 50 per cent of the superannuation tax concessions go to the top 20 per cent of income earners.

If you don’t find that confusing enough, here are two more facts to consider: retired superannuants are subject to mandated fund withdrawals which make them deplete their capital, and any superannuation left in a will is subject to a 15 per cent tax plus Medicare Levy in the hands of the beneficiaries.

The debate about superannuation is bamboozling enough without mixing up facts and opinions. Just because something is printed in a book that bears the Treasury logo does not make it a fact. Sticking to current legislated facts is the best way to think about super.