



Parliamentary
Budget Office

How the taxation of superannuation affects welfare and the budget

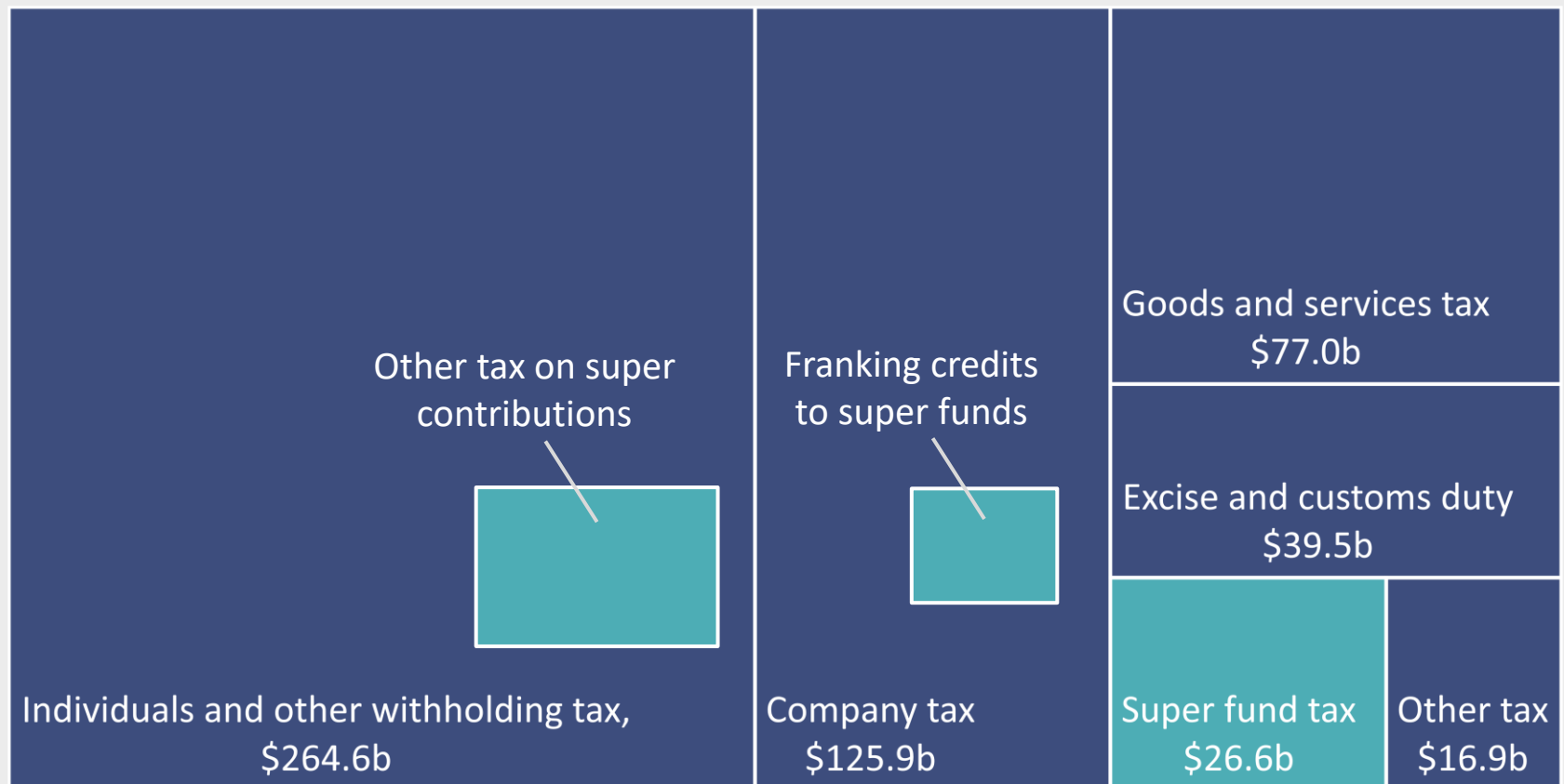
Australian Conference of Economists
July 2023

Cameron Chisholm
Parliamentary Budget Office

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Why we should care about super tax

Australian Government tax receipts, 2021-22 (total: \$550b)



Outline

Assessing super tax against 3 principles

 Efficiency

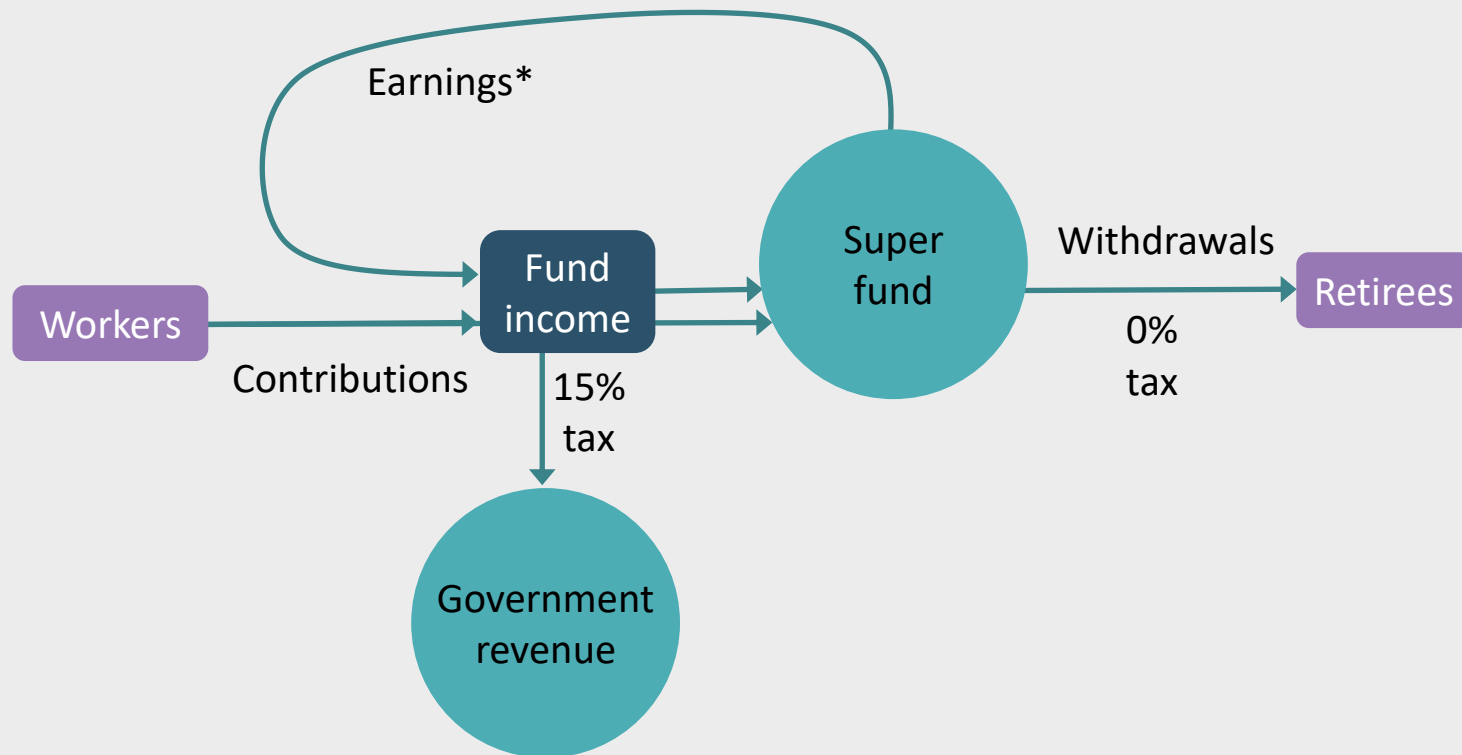
 Equity

 Sustainability

Intro: how is super taxed?

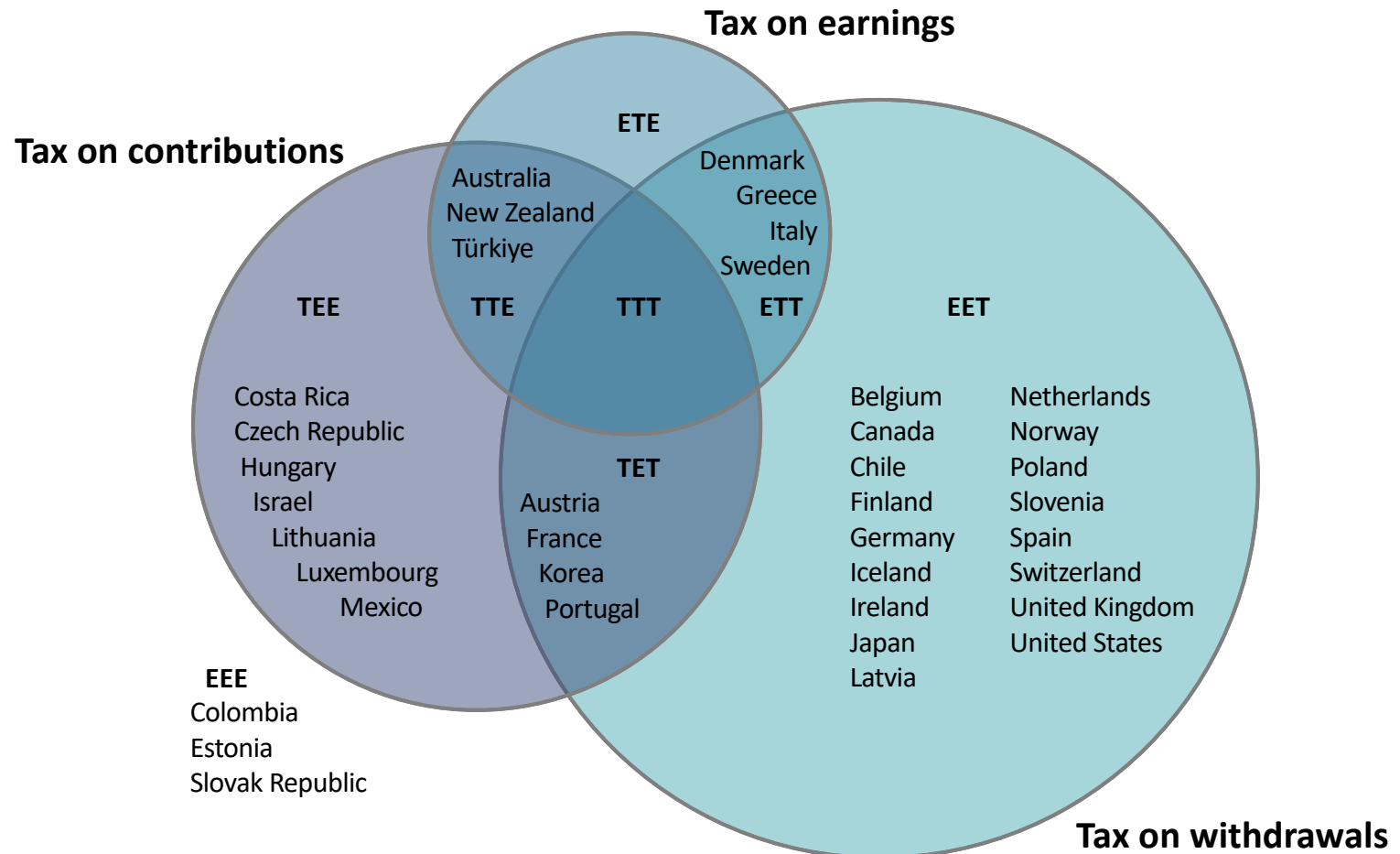
3 potential tax points

- Contributions **t**
- Earnings **t**
- Withdrawals **E**



* Retirement earnings are untaxed

Most OECD countries tax withdrawals



Source: PBO analysis of OECD (2022)

Outline

Assessing super tax against 3 principles

Efficiency

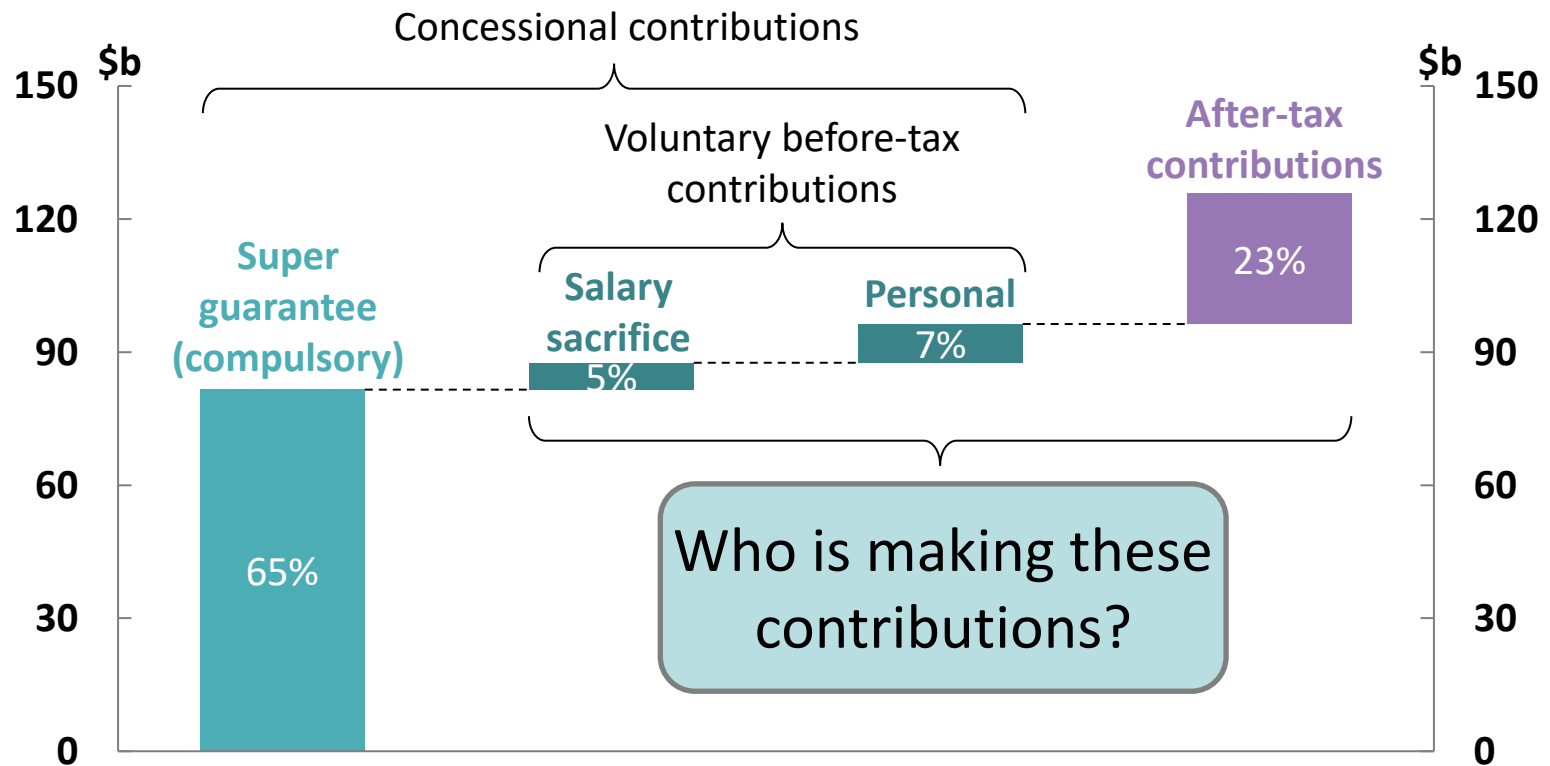
- How do super taxes distort investment decisions?

Equity

Sustainability

Most contributions are compulsory

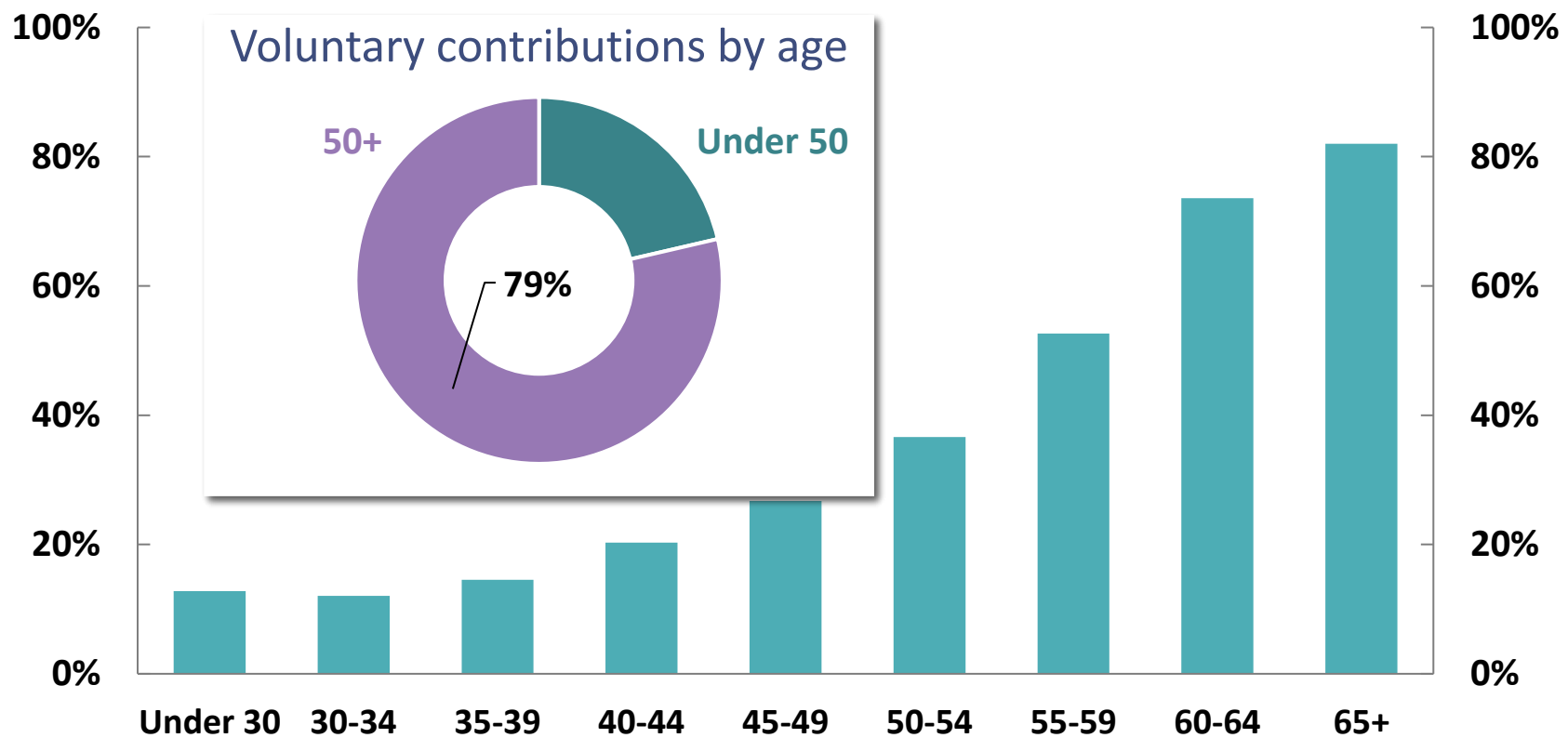
Super contributions by type, 2019-20



Note: excludes contributions to defined benefit funds
Source: PBO analysis of APRA (2023) and ATO (2022)

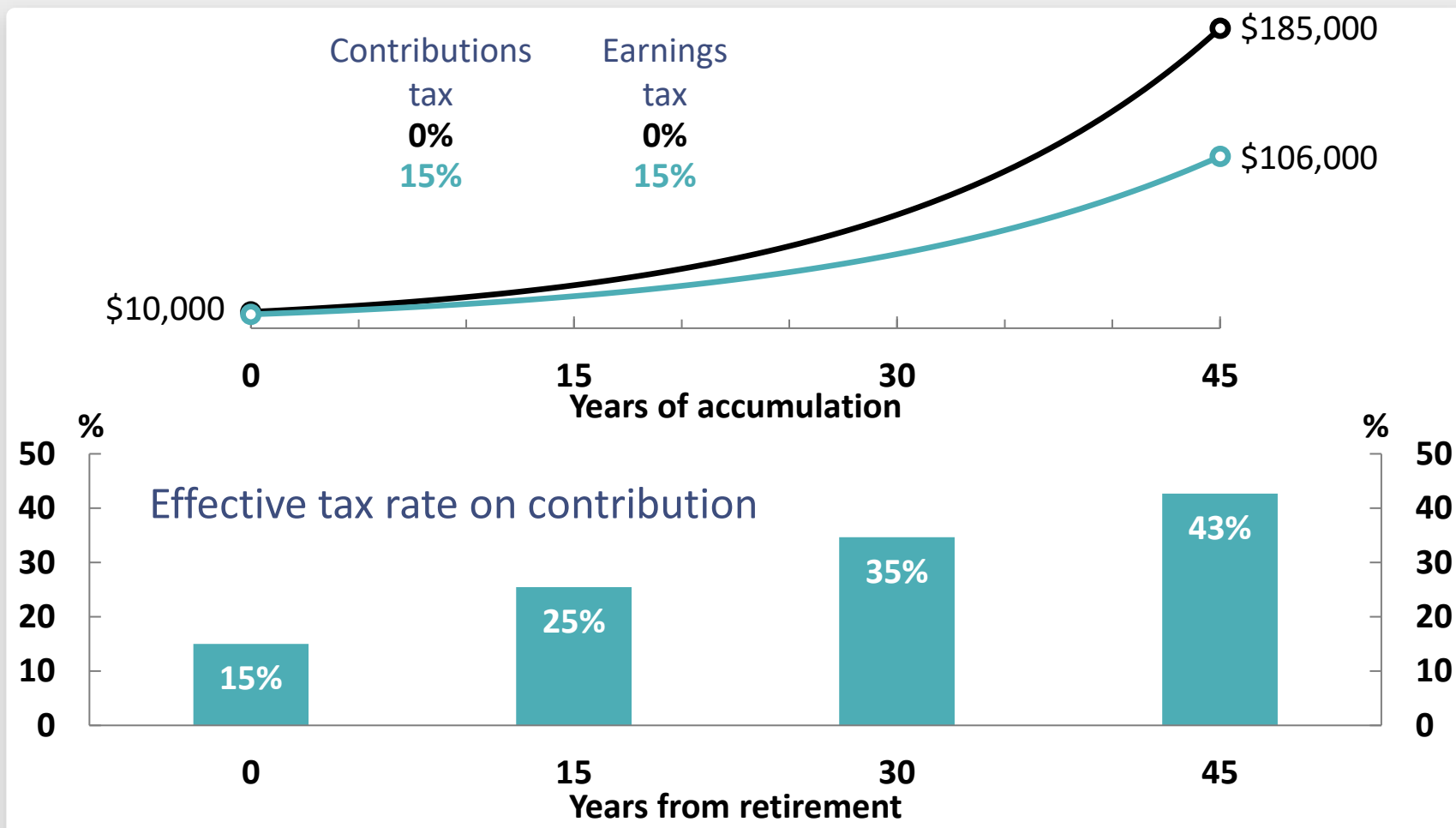
Voluntary contributions are overwhelmingly made by those approaching retirement

Voluntary contributions (% of total contributions)



Source: PBO analysis of ATO (2022) and ABS (2022)

How does super tax affect the accumulation of savings?



Note: values presented in nominal terms
Source: PBO analysis

Outline

Assessing super tax against 3 principles

Efficiency

- How do super taxes distort investment decisions?

Taxes favour contributions closer to retirement

Equity

Sustainability

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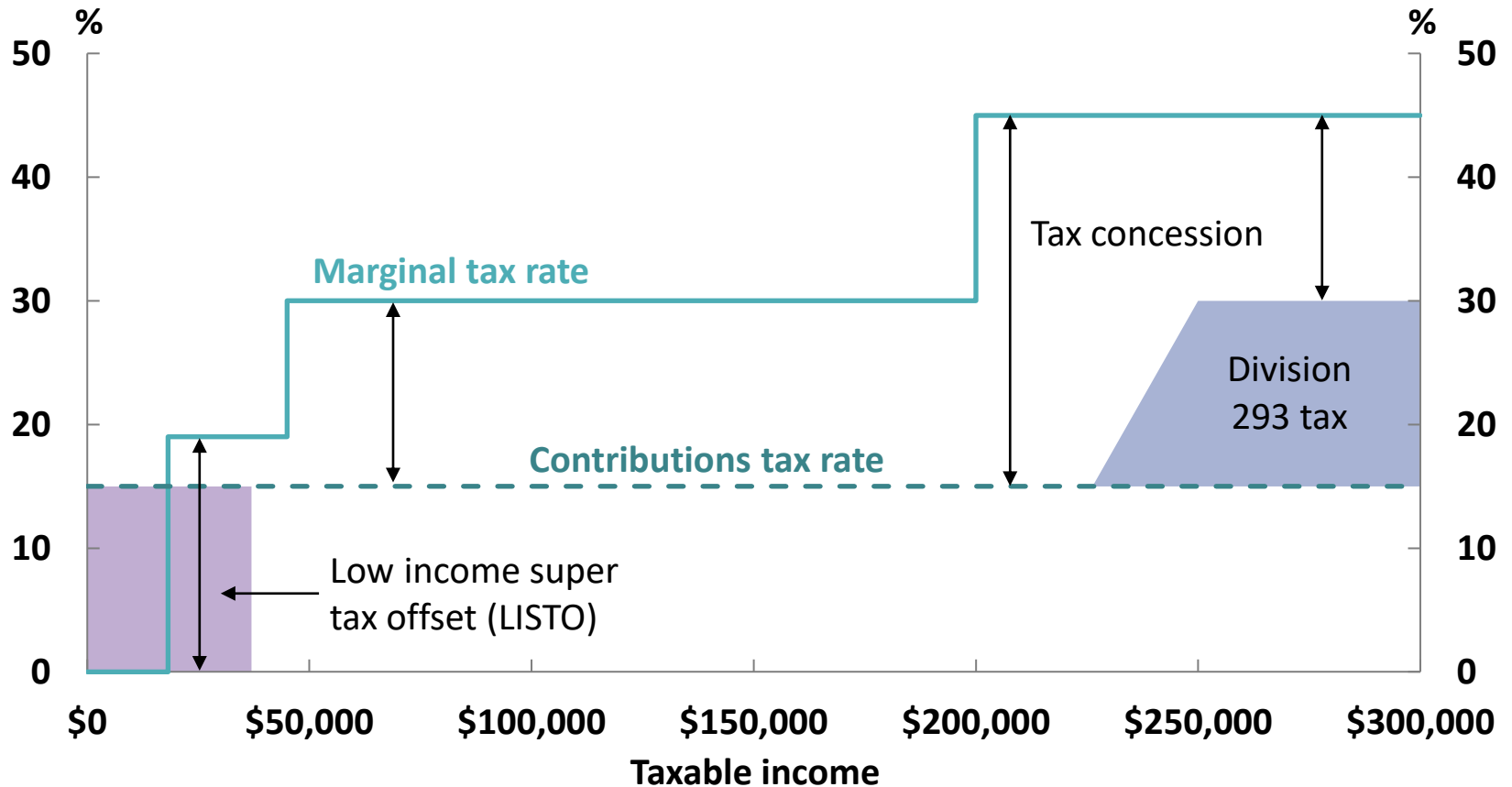
 **Equity**

- Is ttE less progressive than EET?

 Sustainability

Super tax concessions look regressive

Tax rate on income and super contributions, 2024-25



Note: excludes levies and offsets

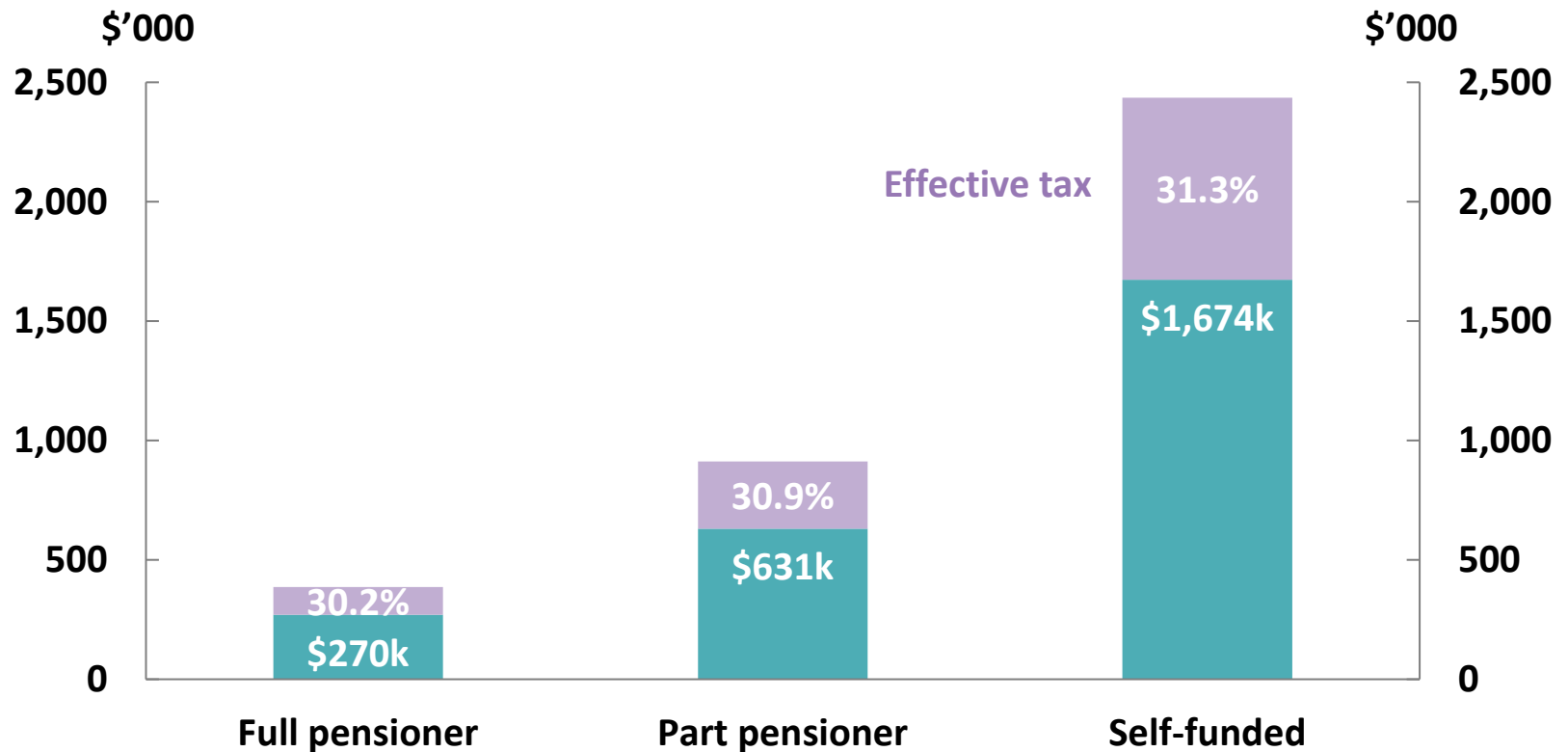
Source: PBO analysis of ATO (2019, 2021)

Consider 3 retirement scenarios

Assumptions	Full Age Pensioner	Part Age Pensioner	Self-funded retiree
Super			
Super guarantee		12%	
Super tax	All current rules apply, caps indexed to CPI (2.5%)		
Accumulation		45 years	
Starting salary	Minimum wage	+40%	+80%
Salary growth	4%	5%	6%
Employment	Mix of FT, PT, not in LF	Full-time	Full-time
Voluntary contributions	None	5 years	15 years
Earnings	Earnings: 5%, Capital gains: 1.8%		
Retirement		25 years	
Age pension	Full	Part, increases to full	None
Demographic	Single, homeowner		
Earnings	Earnings: 3.7%, Capital gains: 1.3%, Retirement income growth: 3.5%		

The effective tax rate on retirement balances is similar across the 3 scenarios

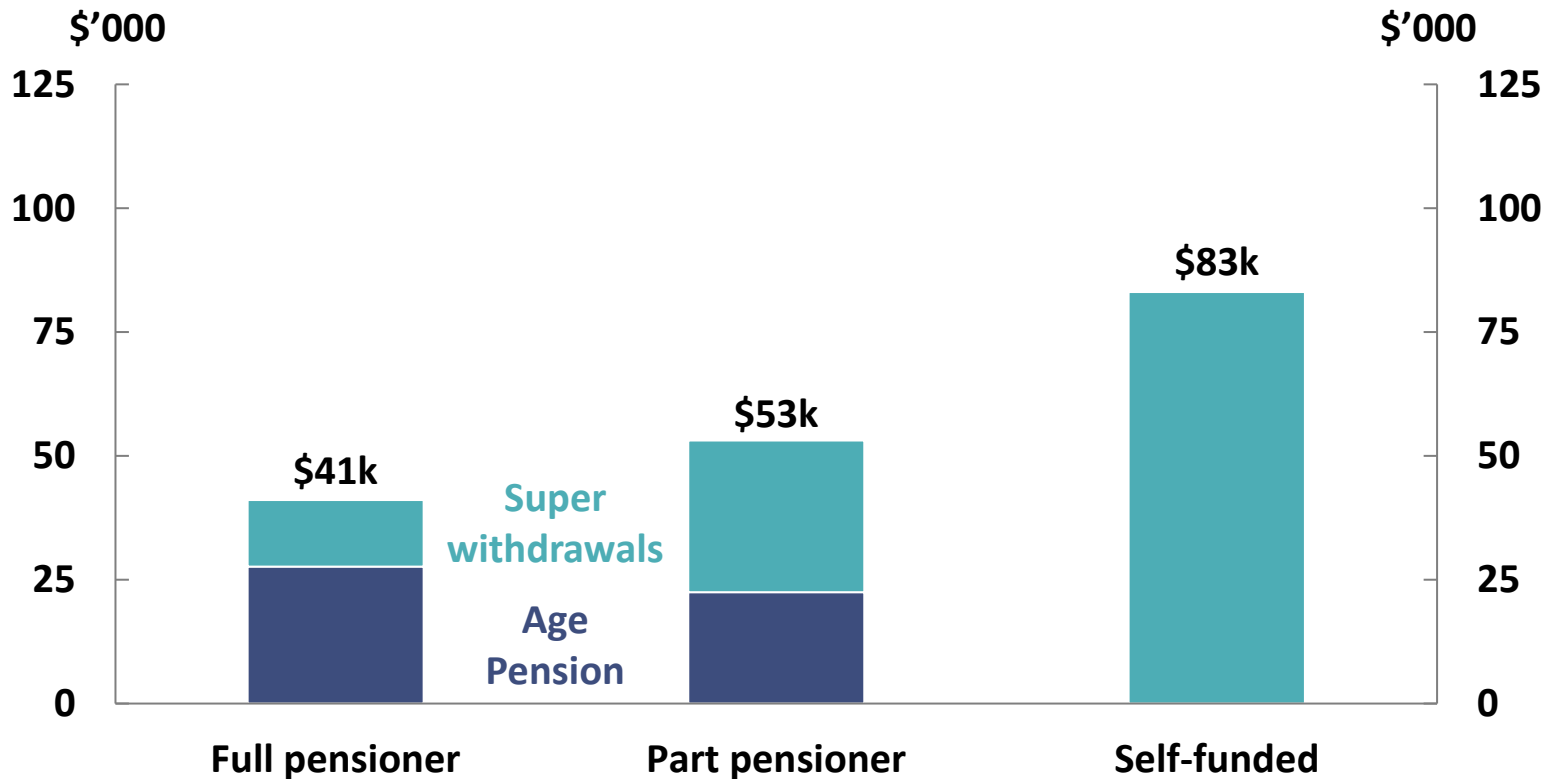
Super balance at retirement



Source: PBO analysis

The Age Pension increases equity in retirement incomes

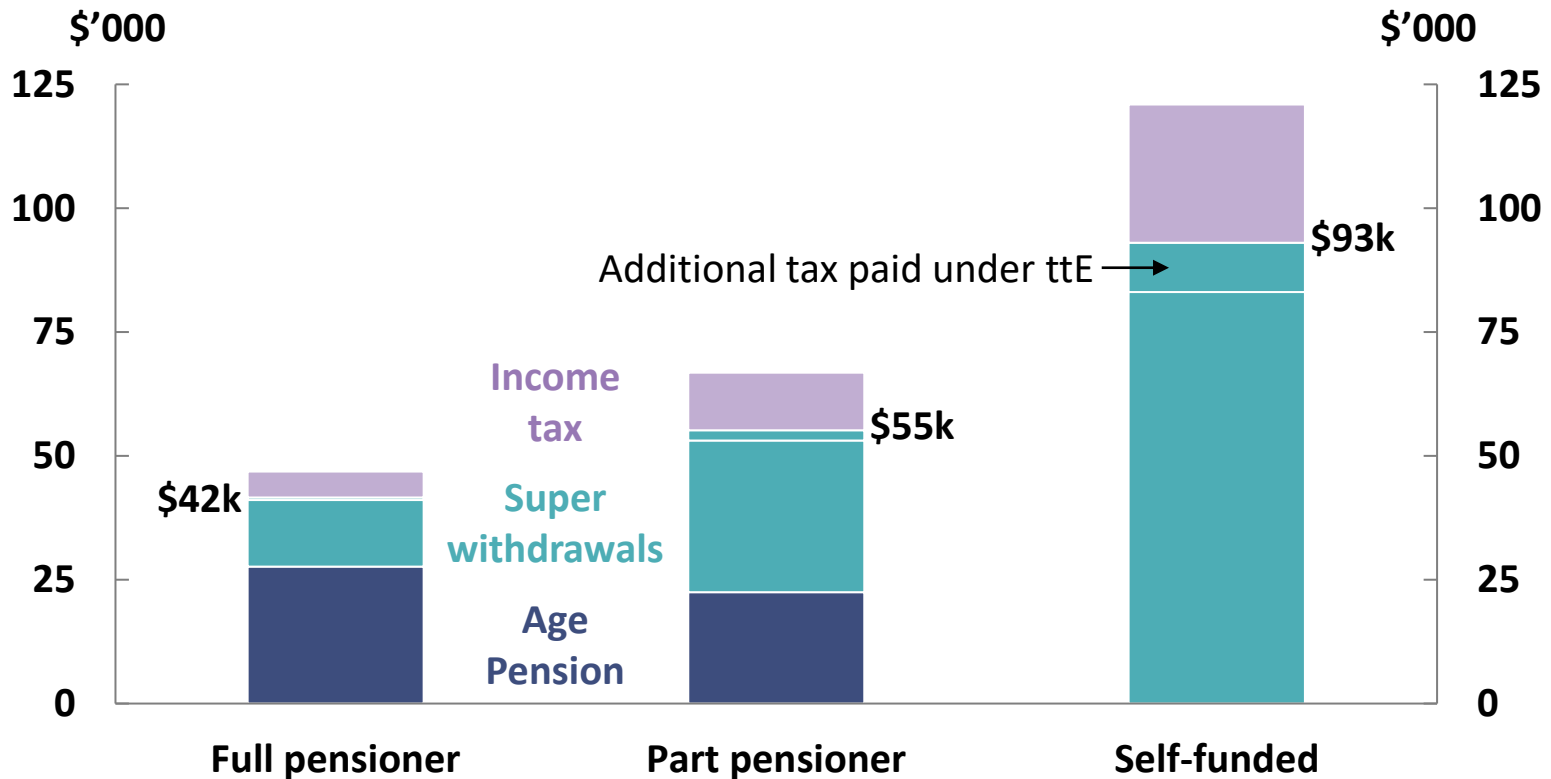
Average annual retirement income – ttE



Source: PBO analysis

How does EET compare?

Average annual retirement income – EET (marginal rates)



Note: Tax calculated using 2024-25 rates

Source: PBO analysis

Outline

Assessing super tax against 3 principles

🔍 Efficiency

🔍 **Equity**

- Is ttE less progressive than EET?

ttE more progressive with Age Pension

🔍 Sustainability

Outline

Assessing super tax against 3 principles

 Efficiency

 Equity

 **Sustainability**

- Super: tax haven for the wealthy?

Super withdrawals in retirement were taxed prior to 2007

Lump sum
withdrawals

Pension stream
withdrawals

**Prior to
1 July 2007**

Tax free threshold
15% above threshold
Personal rates above
Reasonable benefit limit

Personal rates less
15% discount
Personal rates above
Reasonable benefit limit

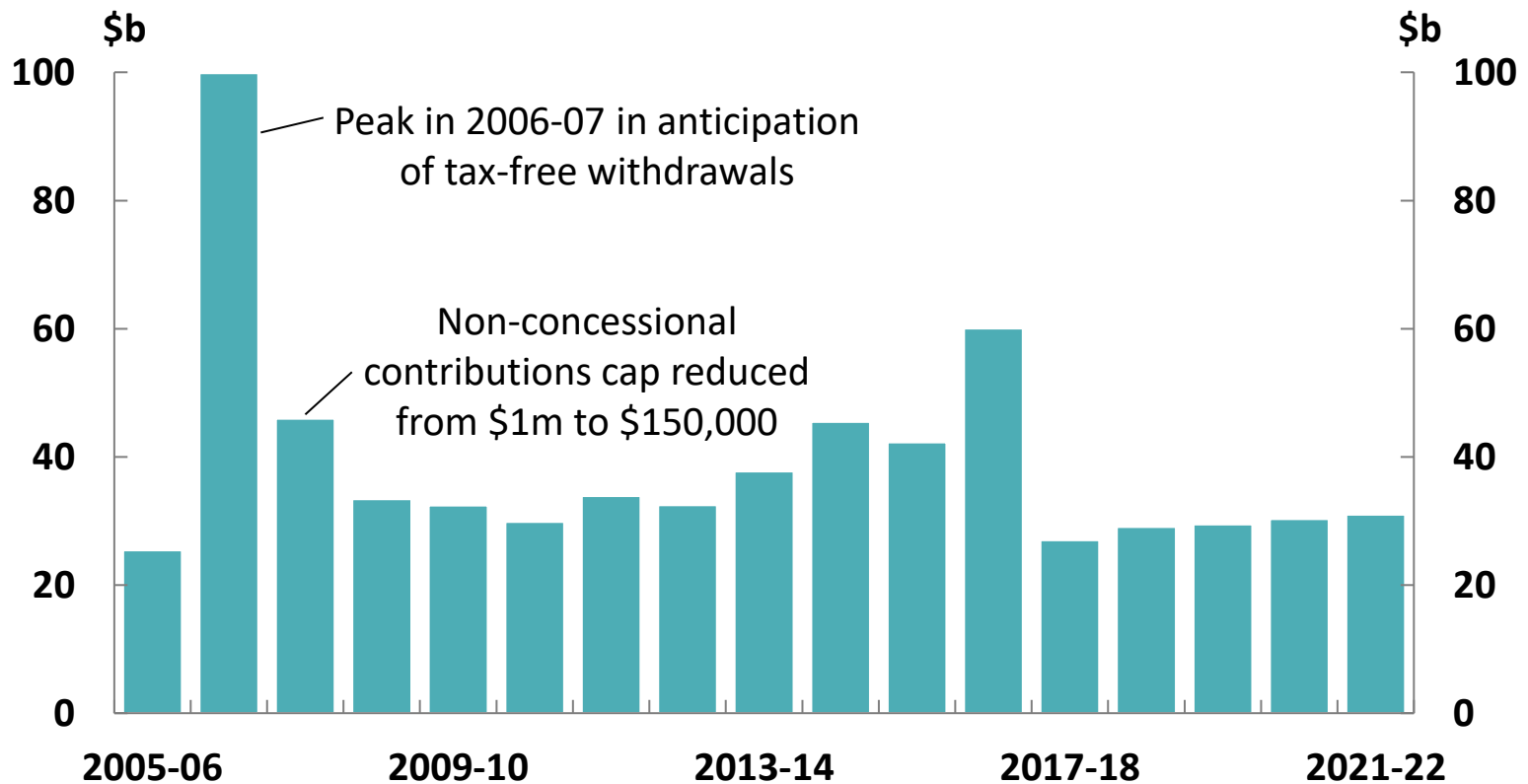
**After
1 July 2007**

Tax free

Tax free

In 2006-07, individuals could put up to a million dollars into their super accounts (after tax)

Non-concessional super contributions



Source: PBO analysis of APRA (2023) and ATO (2022)

Most super tax reforms after 2007 have limited maximum contributions or tax concessions

2012-13	Division 293 tax: additional 15% on contributions for high-income earners
2017-18	Transfer balance cap of \$1.6 million (no non-concessional contributions above limit, limit on how much can be in tax-free pension phase)
2007-08 to 2017-18	Concessional cap ↓ to \$25,000 Non-concessional cap ↓ to \$100,000
2025-26	Minimum 30% tax on earnings for balances above \$3 million (announced, not legislated)

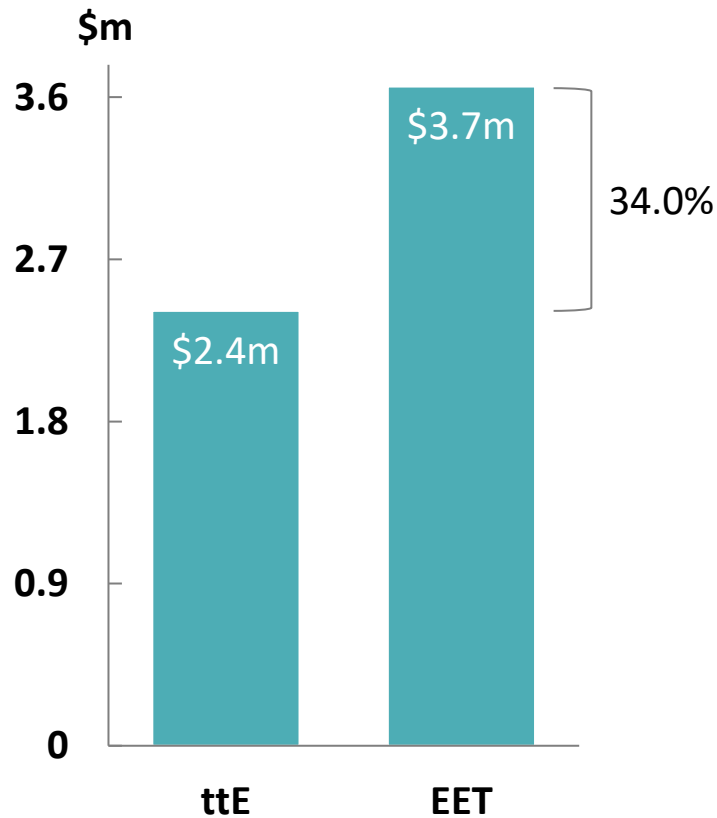
How much super is it possible to save under today's rules? 2 scenarios

Assumptions	Tax minimiser	Balance maximiser
Working life		45 years
Retirement		25 years
Concessional contributions	Maximum (\$27,500)	Maximum
Non-concessional (after-tax) contributions	None	Maximum* (\$110,000)
Tax		
Contributions	15%	15% + Div. 293 (15%) 47% on after-tax cont.
Earnings	15% (10% capital gains), 30% on balance > \$3m	
Indexation and growth	All caps indexed to CPI	
Accumulation	Earnings: 5%, Capital gains: 1.8%	
Retirement	Earnings: 3.7%, Capital gains: 1.3%, Income growth: 3.5%	

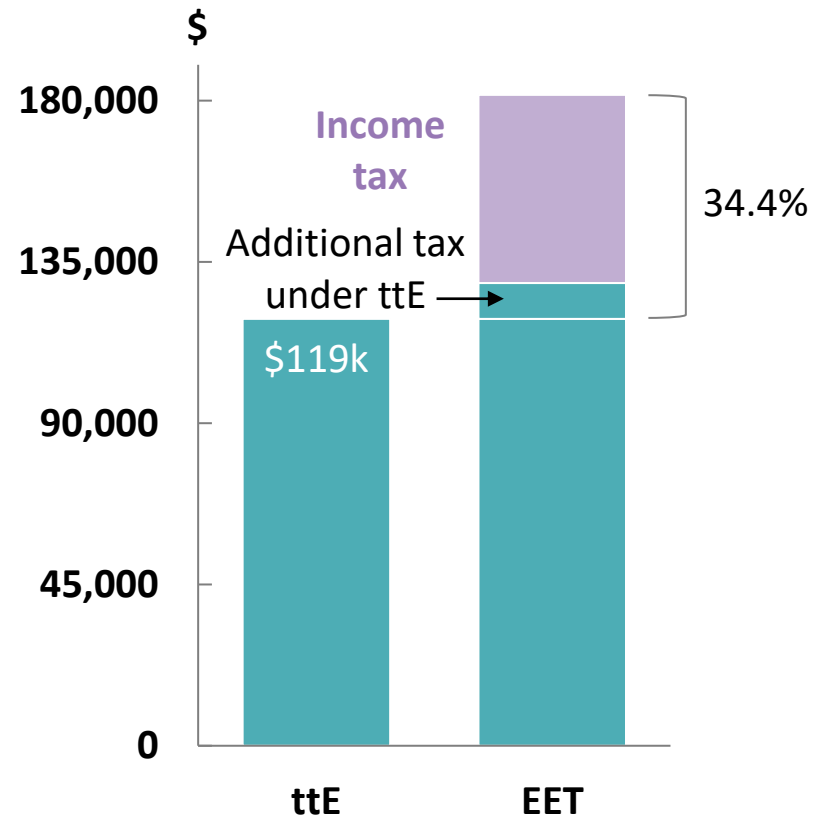
* No non-concessional contributions can be made once balance reaches *transfer balance cap* (\$1.9 million)

How much super is it possible to save under today's rules? *Tax minimiser*

Super balance at retirement



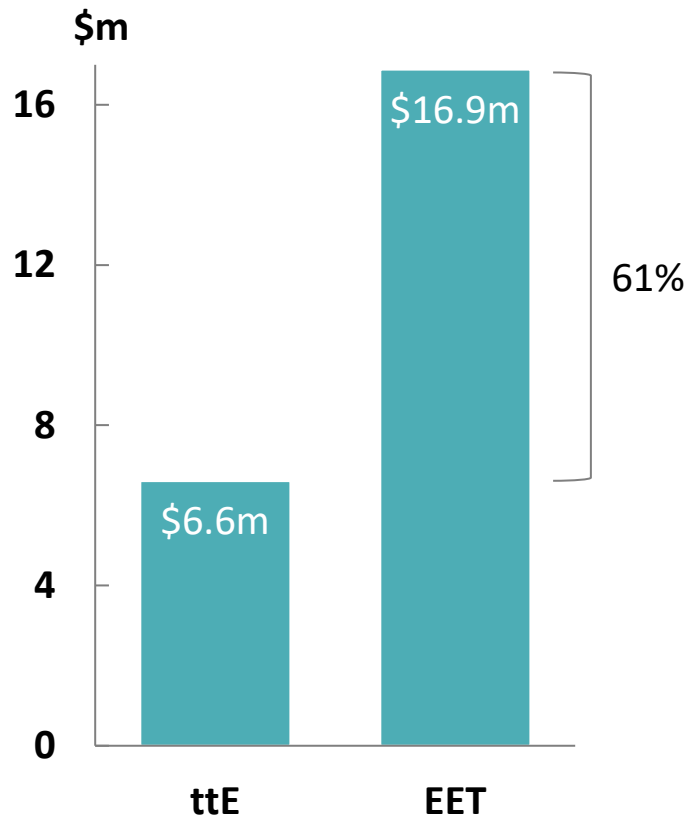
Annual retirement income



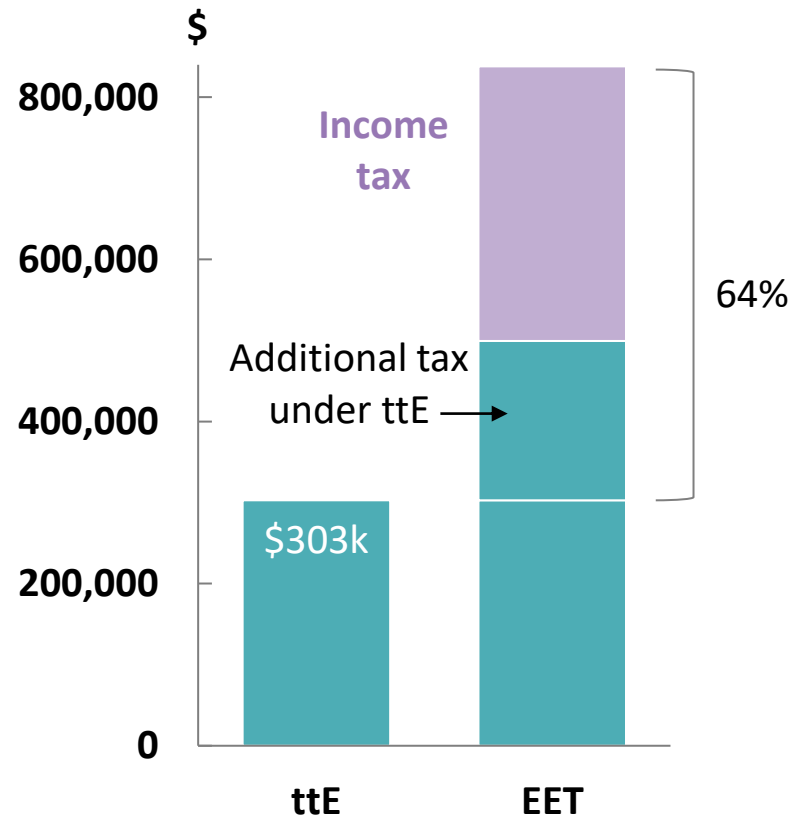
Note: Tax calculated using 2024-25 rates
Source: PBO analysis

How much super is it possible to save under today's rules? *Balance maximiser*

Super balance at retirement



Annual retirement income



Note: Tax calculated using 2024-25 rates
Source: PBO analysis

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Assessing super tax against 3 principles

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 Equity

 **Sustainability**

- Super: tax haven for the wealthy?

Less so in recent years

Conclusion

Assessing super tax against 3 principles

Efficiency

- Issue of alignment of taxes and timing of contributions

Equity

- Super taxes consistent with equity in retirement income system

Sustainability

- Recent reforms mean larger balances involve higher taxes

How is super taxed?

PBO budget explainer, 27 April 2023

Contents

Overview	2
How super is taxed	2
Introduction	3
Super can be taxed at 3 different points	6
Most super contributions are taxed at a low rate	6
Super earnings are also taxed at a low rate	10
Super withdrawals are generally untaxed	11
Super is taxed differently to other forms of income	12
Super tax concessions on contributions are distributed towards higher-income earners	12
Taxes on super earnings compound over a working life	13
There have been many changes to super taxation over the past 40 years	16
There are costs and benefits to Australia's super tax system	18
Many OECD countries tax withdrawals instead of contributions and earnings	18
The impact of super taxes depends on when contributions are made	19
Super taxes are less progressive than personal income taxes	20
Conclusion	21

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Thank you