



Institute of Actuaries of Australia

**Super Policy  
Forum**

# **Superannuation Tax Concessions appropriate, sustainable and properly targeted? (Q3.2)**

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# Overview

- **Why have tax concessions?**
- **Do super taxes need reform?**
- **Simplicity**
- **Sustainability**
- **Efficiency**
- **Equity**
- **Reform options**

# Why do we have tax concessions for super?

Adequacy


Age Pension ↓

Voluntary  
conts

Compensation for  
Preservation


NIRVANA

# tax concessions – how big?



\$24bn

or



\$5bn

# Do Super taxes need reform?

Design Principles*	Current Super Taxes
Simplicity	✓ x
Sustainability	✓ x
Efficient – operating costs	✓
Efficient- economic	x
Equity	x x x

\* Design Principles for tax transfer system (section 1.2 in main Consultation Paper Dec 08)

# SIMPLICITY



Death Benefits

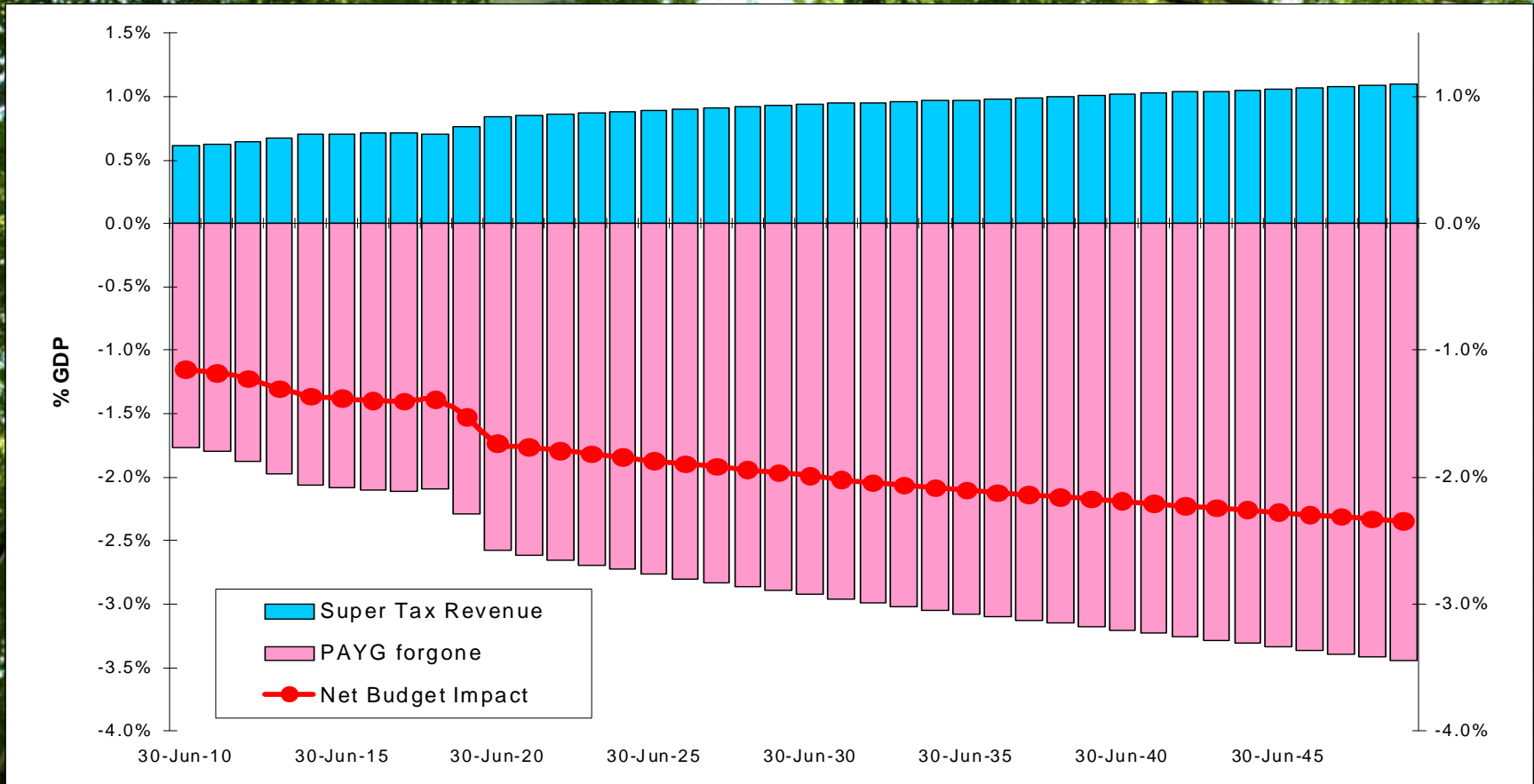
55 to 60  
Benefits

Contribution  
Ages

Little used  
provisions

# Sustainability

## Tax Revenue



# Sustainability

## Tax Concession v Age Pension Savings





# Efficiency – Operating

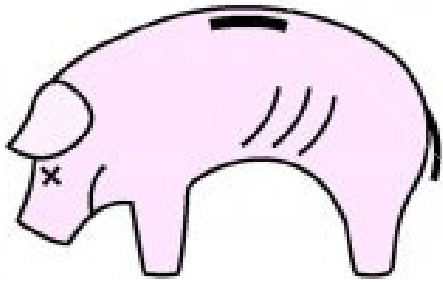


Tax Department found inefficient

# Efficiency – Economic



**\$18bn of \$24bn relates to SG  
(produces no behavioural change)**

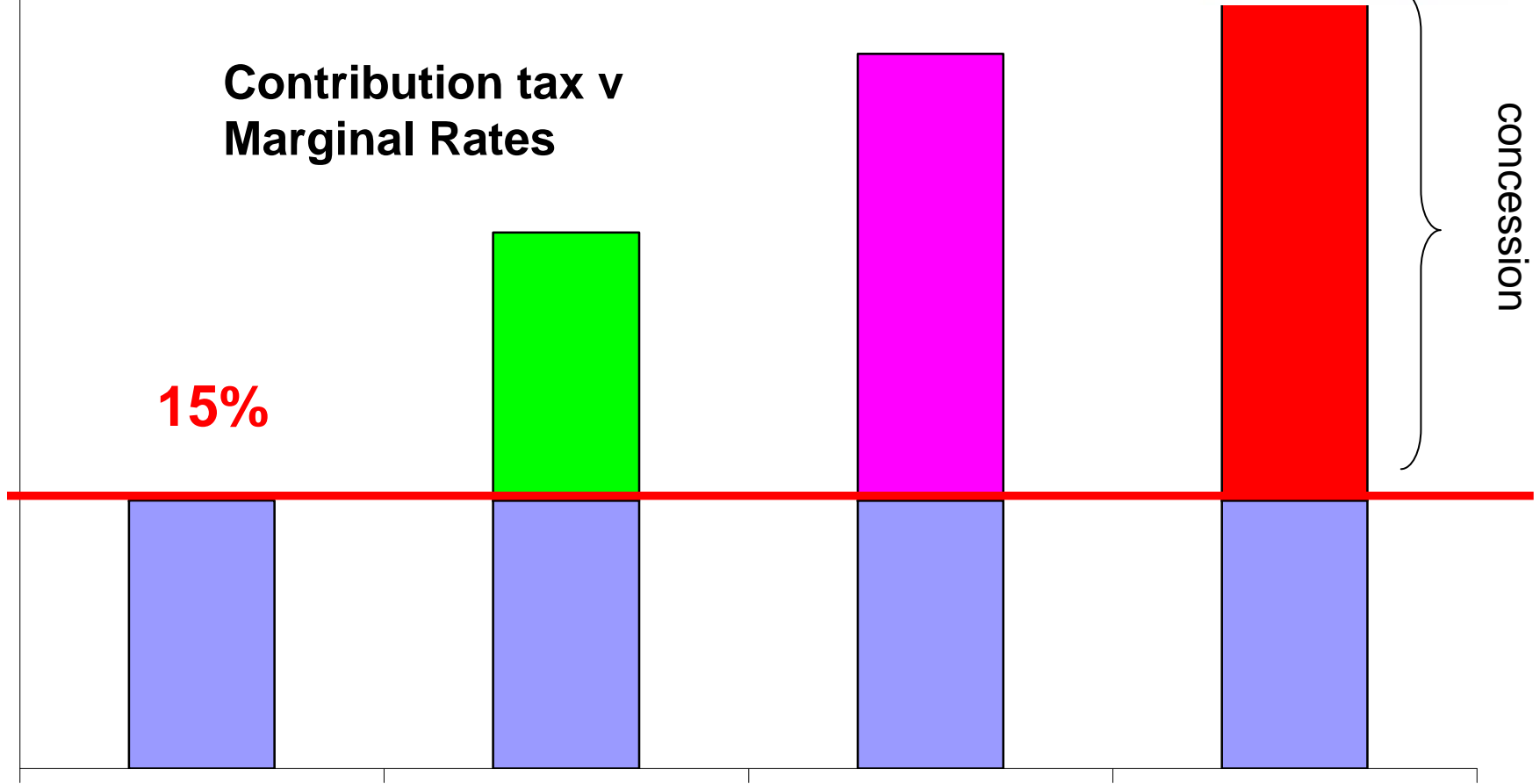


# Equity



Contribution tax v  
Marginal Rates

15%



concession

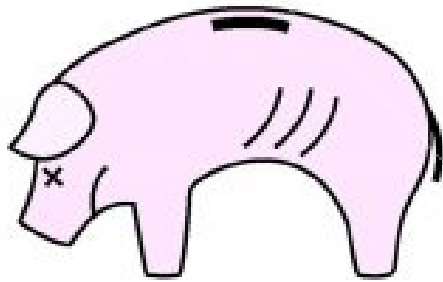
15%

30%

40%

45%

Marginal Tax Rate



# Equity



Measure	Bottom 25% of Earners	Top 25% of Earners	Top 10% of earners
Share of SG contributions	9%	53%	29%
Share of Salary Sacrifice	0%	80%	49%
Share of Assets (pre retirement/post retirement)	6% 0%	57% (pre ret.) 67% (post ret.)	32% (pre ret) 37% (post ret)
Share of Tax Expenditure	<2%	68%	45%
Amount of Tax Expenditure (2008/09)	<\$0.5bn (out of \$24bn)	\$17bn (out of \$24bn)	\$11bn (out of total \$24bn)

# Why do we have tax concessions for super?

Adequacy



Encourage Contributions



Reduce Age Pension



Compensate preservation



# Reform Options – Contributions tax

**Keep 15% Contributions tax**

**Scrap Cont. tax**

**Option 1:**

**Co-conts on  
Employer conts  
for low income  
earners.**

**Option 2:**

**Rebate  
cont tax through  
PAYG system  
for low income  
earners.**

**Option 3:**

**All conts paid from  
after tax income**

**targeted  
rebates / deductions  
given.**

# Reform Options – Investment tax

