7 Taxing Pensions: The Australian Approach

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7.1 Introduction

The increasing prevalence of funded private pension systems worldwide raises questions about how retirement savings and benefits should be taxed. The three most important questions in pension taxation are: (1) At what point should pension savings be taxed? (2) Should the tax regime for pensions be integrated with personal income taxes or be separate? (3) How preferential should the taxation of pensions be? Australia's experience with the tax treatment of private retirement savings (known in Australia as superannuation) brings considerable insight to these questions.

Pension savings can be taxed at one or more of three points—at the time of contribution, as fund earnings accrue, and/or at the time benefits are received. Most countries exempt (E) contributions and fund earnings from taxation and tax (T) benefits under a postpaid expenditure tax (EET) regime. In most cases, the benefits are treated as ordinary income and taxed progressively under the personal income tax schedule. Some countries tax contributions and fund earnings under a comprehensive income tax (TTE) regime. Alternatives include a prepaid expenditure tax (TtE) under which contributions are taxed, fund earnings are exempt (except for excess returns),[1] and benefits are exempt, or a hybrid approach (TTT) whereby pension savings are taxed at all three points.

Contributions and fund earnings can be taxed either in the hands of the contributor, which allows individual differentiation, or in the hands of the fund, which does not. Tax rates may be linked with the personal income tax schedule or not—and if not this adds to potential complexity. Whether integrated or stand-alone, taxes may be imposed at "full" or "concessional" rates. The choice of tax regime has implications for

incentives, fairness, administrative efficacy, political risk and policy stability, and individual decisions and engagement with retirement saving.

Over the past 30 years, superannuation in Australia has been taxed under all three regimes, starting with a very concessionary postpaid expenditure tax regime (EET) in the early 1980s; moving to a hybrid TTT regime between 1988 and 2007, when contributions, fund earnings, and benefits were all taxed; and finally remaining under a comprehensive income tax (TTE) regime since 2007.[2] Taxes at each point have been both specific pension taxes and taxes linked to the personal marginal income tax schedule and have been applied at both full and concessional rates.

The current taxation of superannuation in Australia is separate from the personal income tax schedule and features a flat-rate tax on contributions and fund earnings, with benefits generally tax-free. While the system is concessional in comparison with personal income taxation for many income earners, the distribution of tax concessions (and the net fiscal impact after accounting for the public Age Pension) is skewed toward higher-income earners (Commonwealth Treasury 2012, 2016a). This flat-rate tax structure is largely responsible for the frequent and piecemeal changes to the superannuation tax rules to address equity concerns, which have affected public confidence in the retirement income arrangements and resulted in increased complexity for both individuals and superannuation funds. An important observation is that while superannuation saving and withdrawal is managed by private financial institutions, it is not completely insulated from political risk.

The chapter proceeds as follows. Section 7.2 describes the current taxation of superannuation in Australia and compares it with international arrangements. Section 7.3 traces the changes in the taxation of superannuation in Australia over the past 35 years and links them to the evolution in retirement income policy settings. Section 7.4 evaluates the current tax arrangements using the standard criteria for tax analysis—efficiency, equity, and simplicity—and highlights implications for political risk. Section 7.5 concludes with observations and lessons for countries contemplating similar reforms.[3]

7.2 How Does Australia Currently Tax Superannuation?

Superannuation in Australia is generally taxed under a comprehensive income tax (TTE) regime with a flat-rate tax on contributions (adjusted for people with low or very high incomes), a flat-rate tax on super-

annuation fund earnings, and (generally) tax-free benefits.[4,5] The taxes on contributions and fund earnings are concessional (relative to personal income tax rates) for most people. While slightly different tax arrangements apply to some defined benefit funds and as a result of the application of grandfathering, the emphasis in this chapter is on the most common defined contribution arrangements as applied under Australia's mandatory Superannuation Guarantee.[6] In this context, the current taxation of superannuation (incorporating revisions legislated to commence in July 2017) is illustrated in table 7.1.

7.2.1 Contributions

Contributions are taxed, but their tax treatment differs depending on the type of contribution, the amount of the contribution, and the income of the individual for whom the contribution is made. The main distinction is between contributions made before tax (known as concessional contributions) and those made from after-tax income (known as nonconcessional contributions).

Concessional contributions comprise employer contributions (including those under the compulsory Superannuation Guarantee), voluntary salary sacrifice contributions[7] (which are made out of pretax income), and voluntary personal contributions where a tax deduction is claimed. Concessional contributions are taxed at the 15 percent flat-rate superannuation tax while in the hands of the superannuation fund and are tax-deductible. Until recently, only the self-employed were eligible to receive a tax deduction for voluntary contributions;[8] however, by virtue of changes announced in the 2016–2017 budget and later legislated, access to tax deductibility was extended to all voluntary contributions beginning in July 2017, subject to the concessional contributions cap.

Nonconcessional contributions include employee or personal contributions made from net (after-tax) income, contributions above the concessional contribution limit, spouse contributions, and, for small business owners, proceeds from the sale of assets.[9] Nonconcessional contributions are not subject to the 15 percent contribution tax and are not tax-deductible. However, a tax offset of 18 percent (i.e., up to A$540 per year) is available for contributions on behalf of a spouse (spouse contributions) if the spouse's income is less than A$13,800 per year. This threshold increased to A$40,000 per year beginning in July 2017.[10]

When first introduced in 1988, the 15 percent contribution tax applied to all concessional contributions irrespective of the income of the contributor. Since that time, a variety of different arrangements and tax

Table 7.1
Taxation of superannuation (2016–2017).

Contributions	Fund earnings	Benefits[f]
Concessional contributions	**Fund earnings in accumulation phase (excl. capital gains)[g]:** 15% (less imputation credits in dividend income)	**Individuals aged 60 and over**
Employer, self-employed, salary sacrifice, and other tax-deductible contributions: 15% (up to annual contribution cap of A$25,000[a]), then marginal income tax rates apply[c]	**Capital gains:** Tax discount of 1/3 (tax rate of 10%) when asset held for > 1 year	**Income stream:** exempt from tax
Extra tax on concessional contributions for individuals with income[d] > A$250,000: 15%	**Fund earnings in withdrawal phase:** 0%[h] (from July 2017, 15% for balances in excess of A$1.6 million)	**Lump sum:** exempt from tax
Nonconcessional contributions		**Individuals between preservation age and age 60**
Personal contributions from take-home pay, spouse contributions: Not taxed (up to annual contribution cap of A$100,000[b]), then marginal income tax rates apply[c]		**Income stream:** marginal income tax rate less 15%
Low-income super contribution (for individuals with income < A$37,001): Not taxed		**Lump sum:** 15% above tax-free threshold of A$195,000
Super co-contribution[e]: Not taxed		

Sources: Commonwealth Treasury (2016a); O'Dwyer (2016); https://www.ato.gov.au/Super/.

[a] The current cap is A$30,000 per year for members under 50 and A$35,000 per year for members 50 or over. The annual cap of A$25,000 per year commenced in July 2017.

[b] A$300,000 over a three-year period, but only when the account balance is less than A$1.6 million.

[c] Plus an excess contributions charge.

[d] Income is defined as taxable income (plus any adjustments, such as reportable fringe benefits and investment losses) plus pretax superannuation contributions. This tax is known as the Division 293 tax. The "income" threshold was A$300,000 per year but fell to A$250,000 per year beginning in July 2017.

[e] The super co-contribution is a contribution made by the government of up to A$500 per year when individuals have made a personal super contribution of A$1,000 in that year.

[f] Below the preservation age, income streams are taxed at marginal income tax rates and lump sums are subject to a 20 percent tax rate. However, benefits are available before the preservation age in exceptional circumstances.

[g] Since July 2017, superannuation fund earnings include earnings on assets supporting transitional super income streams (also known as transition to retirement pensions).

[h] Subject to minimum "age-based" annual drawdown requirements, ranging from 4 percent of assets at age 60 to 14 percent of assets at age 95.

rates have been applied to individuals at the bottom and very top of the income distribution to address the regressive nature of flat-rate taxes. Individuals at the very top of the income distribution are now subject to an additional 15 percent tax (known as the Division 293 tax) on concessional contributions made on income above A$300,000. In July 2017, this threshold was reduced to A$250,000. Individuals at the bottom end of the income distribution (that is, with taxable income of A$37,000[11] or less) are effectively refunded the contribution tax paid on concessional contributions under the Low Income Super Contribution (LISC).[12] The LISC is not taxed.

In addition, low-income earners may be eligible for a "matching" government contribution (called the "super co-contribution"). The maximum super co-contribution of A$500 is available when an individual makes a personal (nonconcessional) contribution of A$1,000 in that year and has income (in 2016–2017) of A$36,021 or less. A partial super co-contribution is available to individuals with annual income between A$36,021 and A$51,021. The super co-contribution is not taxed.

Contribution caps apply to concessional (employer, salary sacrifice, and voluntary deductible) contributions and nonconcessional contributions (personal contributions from take-home pay), and excess contribution taxes apply to contributions made above these caps. For 2016–2017, the annual contribution cap for concessional contributions is A$30,000 for people under 50 and A$35,000 for people aged 50 and over. In July 2017, this was reduced to a flat A$25,000 but accompanied by a provision allowing "catch-up" contributions (resulting from unused caps from the previous five years) for people with account balances below A$500,000.[13]

Nonconcessional contributions had been subject to an annual cap of A$180,000, or A$540,000 over three years.[14] In July 2017, the annual cap was reduced to A$100,000 (or A$300,000 over three years) and an account balance cap of A$1.6 million was introduced. Contributions in excess of the contribution caps are taxed at marginal income tax rates.

7.2.2 Fund Earnings

The statutory tax rate on income earned by Australian superannuation funds is 15 percent, but because of specific arrangements by asset type, the effective tax rate depends on the chosen or default asset allocation of fund members. More specifically, interest income is taxed at 15 percent, Australian dividends are taxed at 15 percent less imputation credits (i.e., credit for company tax already paid), overseas

dividends are taxed at 15 percent less foreign tax credits (i.e., credit for foreign tax already paid), and income from capital gains receives a one-third discount (i.e., taxed at 10 percent) if the asset has been held for more than one year. As a result, the effective tax rate on the earnings of a typical Australian superannuation fund that invests a large proportion of its assets in Australian equities could be significantly less than the 15 percent statutory rate. Superannuation funds with a "balanced" asset allocation (with around 65–70 percent in growth assets) would typically be subject to an effective earnings tax rate of around half the statutory rate.

The fund earnings tax applies to all assets in the accumulation phase, and most assets in the retirement phase accumulate tax-free. That is, the fund earnings tax does not apply to assets in the withdrawal phase if minimum "age-based" drawdown limits are followed, ranging from 4 percent of assets for 60-year-olds to 14 percent of assets for those aged 95 and over. The concessional treatment of superannuation fund assets in the withdrawal phase was initially applied only to assets supporting lifetime annuities (as an incentive to encourage the takeup of these products) but was gradually extended to all retirement benefit products. Since July 2017, a lifetime cap has applied, such that only the first A$1.6 million of retirement assets will be exempt from the fund earnings tax. Earnings on excess balances will be taxed at 15 percent.

7.2.3 Benefits

Retirement benefits may be taken as a lump sum, as an account-based pension (i.e., a phased withdrawal product), or as term or lifetime annuities. Two important ages arise for the taxation of retirement benefits. The first is the preservation age, the age at which superannuation savings can be accessed. The preservation age is in the process of being increased from age 55 to age 60 by 2024 (and for the 2016–2017 fiscal year is 56). The second is age 60 since, as a result of the Simpler Super reforms of 2007 (Commonwealth Treasury 2006), almost all superannuation benefits taken after age 60 are tax-free.[15] For those taking their superannuation benefits between the preservation age and age 60, different tax rates apply, depending on the amount and type of benefit. Income streams are taxed at marginal income tax rates less a tax offset of 15 percent, and lump-sum benefits are tax-free up to a threshold of A$195,000 and thereafter are taxed at a flat rate of 15 percent.

Slightly different rules apply to a particular type of superannuation benefit known as a transition to retirement pension (or a transitional super income stream). Transition to retirement pensions were intro-

duced as a means of lifting the labor force participation rate of older workers; they allow recipients (who have reached their preservation age but are under 65 and not retired) to access part of their superannuation savings as a noncommutable income stream while still working. Under current rules, the earnings on assets supporting transition to retirement pensions are exempt from tax. However, since July 2017, the 15 percent earnings tax has applied to assets supporting transitional super income streams, irrespective of drawdown patterns.

7.2.4 International Comparisons

As illustrated in table 7.2, Australia's approach to the taxation of superannuation differs from the taxation of private pensions in most developed countries.[16] Besides Australia, only New Zealand and Denmark tax superannuation/private pensions under a comprehensive income tax (TTE) regime where contributions and fund earnings are taxed and benefits are exempt.

Among the countries listed in table 7.2, the most common approach is the postpaid expenditure tax (EET), although pension fund earnings are taxed in specific circumstances in Sweden and Italy. Under the EET approach adopted by most developed countries, retirement benefits are (generally) taxed progressively as ordinary income at an individual's marginal tax rate and contributions and fund earnings are tax-exempt. A key benefit of the EET approach is that by not taxing fund earnings it avoids the impact of inflation on effective real rates of return, while taxing benefits at marginal tax rates in retirement facilitates income smoothing.

The TEE approach, whereby contributions are taxed progressively at an individual's marginal tax rate and fund earnings and benefits are exempt from tax, is less popular, with the United States providing the only example in table 7.2. In the United States, the standard approach to the taxation of retirement savings accounts (individual retirement accounts, IRAs) and private pensions (401[k] plans) is under an EET postpaid expenditure tax; however, related products called Roth IRAs and Roth 401(k) plans are taxed under the TEE approach, whereby contributions are made out of after-tax income and fund earnings and benefits are exempt from tax. This variation was introduced to expand access to tax concessions and is attractive to those who may anticipate that their marginal tax rate in retirement will exceed their rate at the time of contribution (Bateman and Kingston 2007). Whether contributions are taxed or not, almost all countries impose contribution caps,

Table 7.2
Taxation treatment of private pensions—international comparison.

Country	Type of plan/ contribution	Source of contribution	Contributions	Earnings	Benefits
Australia	Concessional	All	T	T	EE
	Nonconcessional	Individual	T	T	
Canada	All	All	E	E	T/PE
Chile	All	Individual	E	E	T
Denmark	"Age Savings" plans	All	T	T	E
	Other plans	All	E	T	T
France	Occupational plans	Employer	T/PE	E	T/PE
	"Perco" plans	Individual	T	T/PE	T/PE
	Other plans	Individual	T/PE	E	T/PE
Germany	Private pension insurance	Individual	T	E	T/PE
	Other plans	All	E	E	T
Italy	All	All	E	T	T/PE
Japan	All	All	E	E	T/PE
Korea	Occupational plans	Employer	E	E	T/PE
	All	Individual	T/PE	E	T/PE
Netherlands	All	All	E	E	T
New Zealand	All	Individual	T	T	E
	All	Employer	T	T	E
Norway	All	Individual	T/PE	E	T
	Occupational plans	Employer	E	E	T
Sweden	Premium pension	Individual	E	E	T
	Other plans	All	E	T	T
Switzerland	All	All	E	E	T
United Kingdom	All	All	E	E	T/PT
United States	Roth	Individual	E	E	T
	Other	All	T	E	E

Source: OECD (2015a).
Note: T = taxed, E = exempt, T/PE = taxed but partially exempt.

and excess contributions are generally taxed progressively at marginal tax rates.

Kingston and Piggott (1993) showed the equivalence of the two expenditure tax approaches (postpaid EET and prepaid TtE) in terms of the present value of tax paid for a given single tax rate and in the absence of excess returns (i.e., where $t=0$). However, in reality, the prepaid approach would impose a higher tax burden on higher-income earners, since taxation under marginal income tax rates would be higher in peak earning years than in retirement, when incomes are lower. Further-

more, in the event of excess returns, equivalence between front- and back-loaded taxation would only apply when the excess return on fund earnings is taxed. In this regard, the Australian TTE approach (where the "T" on fund earnings is very concessional) could be considered broadly equivalent to the typical international EET approach.

Whether taxes are front-loaded or back-loaded has other implications relating to incentives to participate, complexity, risk sharing, and the timing and protection of revenue. The up-front tax concessions under the back-loaded EET approach would be more likely to encourage participation in superannuation/pension plans and encourage higher voluntary contributions and delay retirement. It is also administratively simpler to tax retirement benefits in the hands of individuals at their marginal tax rates than to tax contributions from different sources. Furthermore, a back-loaded EET approach facilitates risk sharing between individual retirees and the government in the event of fluctuations in financial markets. However, the front-loaded TEE approach generates revenue up front and protects this tax base in the event of increasing international labor mobility (Genser and Holzmann 2016, chapter 15, this volume).

As indicated in table 7.2, the comprehensive income tax approach has been adopted by a minority of countries (Australia and New Zealand apply TTE, and Denmark, Italy, and Sweden apply ETT). Under this approach, intertemporal distortions arise because of the taxation of fund earnings, affecting allocative neutrality with respect to consumption decisions. However, with the exception of New Zealand, fund earnings are taxed at concessional flat rates rather than progressively at an individual's marginal tax rate, thereby minimizing possible distortions.

A further point of difference is whether the tax rates on superannuation/pension savings are linked to the personal income tax schedule or are in fact a separate regime, and whether taxation applies at full or concessional rates. For the countries listed in table 7.2, in almost all cases the tax rates are linked to personal income tax rates. The main exception is New Zealand, where personal marginal income tax rates apply to contributions and fund earnings.

In sum, most countries tax superannuation/private pensions under a postpaid expenditure tax approach (EET), with a small but growing number of countries (including Australia) bringing forward the taxation of retirement savings and benefits by taxing contributions and fund earnings at full or concessional rates (OECD 2015a; Genser and Holzmann 2016, chapter 15, this volume).

7.3 Evolution of Australia's Approach to Superannuation/Pension Taxation

Thirty-five years ago, the coverage of superannuation was low, restricted to full-time workers in the public sector and white-collar workers, and the taxation of superannuation was extremely concessional. The evolution of superannuation taxation since then can be represented in three phases: pre-1988 (phase 1), when superannuation was voluntary and coverage was low; 1988 to 2007 (phase 2), during which superannuation coverage expanded through inclusion in industrial awards and compulsion and the Superannuation Guarantee; and post-2007 (phase 3), which saw the maturation of mandatory arrangements, resulting in almost universal coverage and growing account balances. Over this time, Australia's system for the taxation of superannuation also evolved from the pre-1988, postpaid expenditure tax (EET), to the hybrid (TTT) regime between 1988 and 2007, to a form of comprehensive income arrangement (TTE) since 2007, as summarized in table 7.3. Subsection 7.3.1 summarizes Australia's retirement income arrangements; subsequent subsections then describe these three phases in the evolution of superannuation taxation.

7.3.1 Retirement Income Provision in Australia

Australia operates a multipillar retirement income arrangement comprising a means-tested Age Pension financed from general tax revenues; a mandatory, employer-financed, defined contribution scheme known as the Superannuation Guarantee; and tax incentives to encourage voluntary superannuation contributions and other forms of private savings.[17] The "first pillar" Age Pension is paid at a rate of around 28 percent of average male full-time earnings for singles and 41 percent for couples and is currently indexed to keep up with wages in the rest of the economy. The Age Pension is available from age 65 (it will gradually increase to 67 between 2017 and 2023)[18] and is paid subject to income and asset (means) tests, which have the effect of excluding the top 25–30 percent of the wealth distribution from the Age Pension. In 2016, around 60 percent of age pensioners received the full rate of the Age Pension, with the remainder on a partial pension (Australian Department of Social Services 2016). The means tests are comprehensively defined, although the asset test excludes owner-occupied housing.

The "second pillar" Superannuation Guarantee (mandatory private retirement savings) commenced in 1992 and requires all employers to

make contributions on behalf of their employees into the employee's superannuation fund of choice (or a default superannuation fund chosen by the employer in the absence of individual choice). The mandatory employer contribution gradually increased from 4 percent to 9 percent between 1992 and 2002 and, following a decision to increase it to 12 percent over a number of years, currently stands at 9.5 percent.[19]

The first two pillars are supplemented by "third pillar" voluntary, long-term savings that include voluntary superannuation contributions, currently made by around one-third of super fund members (Australian Bureau of Statistics 2009), and shares, financial assets, managed funds, property, and home ownership.

Benefits from superannuation savings can be taken at the preservation age (currently age 56, increasing to age 60 by 2024), and individuals are free to choose how they take their benefits from a menu that includes lump sums, account-based pensions (i.e., phased withdrawal products), and life and term annuities. Almost all retirees take nonannuitized benefits, although the number of life annuity policies sold recently increased sharply, from less than 20 in 2010 to over 5,000 in 2016 (Plan for Life 2016).

Around 95 percent of employees are covered by the mandatory superannuation arrangements, and compliance is high, with only those who are too young (under 18) or too poor (earning less than A$450 per month or less than 7 percent of average earnings) excluded from the arrangements. The self-employed are not covered by the compulsory arrangements, but around 75 percent make regular contributions to superannuation accounts (Australian Bureau of Statistics 2009). Including Age Pension eligibility, the Australian Commonwealth Treasury estimates that a fully mature Superannuation Guarantee can be expected to deliver a net replacement rate of around 90 percent for a worker on median earnings and 78 percent for a worker on average earnings (Australian Government 2014).

7.3.2 Superannuation Taxation Phase 1 (Pre-1988)

Traditionally, Australians relied on the Age Pension and voluntary superannuation for retirement income provision. While tax deductibility for superannuation contributions was introduced in 1915 and tax concessions for lump-sum benefits in 1936, preservation of benefits was poor and coverage was low. In the early 1980s, only about one-third of workers in the private sector and less than half of all workers were covered by superannuation arrangements; for those who were

Table 7.3
Evolution of the taxation of superannuation in Australia.

	Contributions	Earnings	Benefits	Regime
Phase 1				
Pre-1983	0%	0%	**Income stream:** Personal tax rates **Lump sum:** 5% of amount at personal tax rates	EEt
1983–1988	0%	0%	**Income stream:** Personal tax rates **Lump sum:** <A$50,000 taxed at 15% >A$49,999 taxed at 30%	EET
Phase 2				
1988	**Employer (and self-employed):** 15% (+15% surcharge for high-income earners between 1997 and 2005) **Employee:** Paid out of after-tax income Age-based contribution caps apply	**Super fund earnings in the accumulation and limited super fund earnings in retirement phase (excl. capital gains)**: 15% (reduced by imputation credits on dividend income) **Capital gains:** 10%	**Income stream:** Personal tax rates less 15% rebate **Lump sum:** <threshold (tax-free) Threshold to reasonable benefit limit (taxed at 15%) >Reasonable benefit limit (taxed at personal tax rates)	TTT

Phase 3				
Post-2007	**Employer (and self-employed)**: 15% (30% if income > A$300,000 (threshold A$250,000 from 2017–2018) and effective rate of 0% if income < A$37,001)	**Accumulation phase**	**Income stream:** Exempt (aged 60 and over)[a] **Lump sum:** Exempt (aged 60 and over)[a]	TTE
	Employee: Paid out of after-tax income	**Super fund earnings (excl. capital gains):** 15% (reduced by imputation credits on dividend income)		
	Refund of contribution tax if low income	**Capital gains**[a]: 10%		
	Flat-rate contribution caps apply	**Retirement phase** **Super fund earnings (and capital gains):** 0% (from July 2017, 15% if balance > $1.6 million)		

Sources: Commonwealth Treasury (2016a); O'Dwyer (2016); https://www.ato.gov.au/Super/; Nielsen (2010).

[a] Different tax rates apply to people who take their benefits before age 60 (see table 7.1).

covered, retirement payouts were compromised by limited vesting and an absence of portability. Unlike in many other OECD countries, public earnings–related or employment-related pensions had never been introduced in Australia, despite several broadly supported attempts to do so. As a result, as recently as the first half of the 1980s, Australia operated a two-pillar retirement income system, with the public Age Pension supported by voluntary superannuation (Bateman and Piggott 1997).

During this period of low coverage, superannuation was taxed only lightly. Employee contributions were paid from after-tax income, employer contributions were not taxed, and superannuation fund earnings accumulated tax-free. At retirement, benefits could be taken as lump sums or annuities. Most people took lump sums, which were very generously taxed, with only 5 percent of the amount of the lump sum included in taxable income in the year of payment, resulting in an effective tax rate of no more than 3 percent, depending on the individual's personal tax rate.[20] Annuities did not receive concessions and were taxed as ordinary income. These arrangements resembled post-paid expenditure taxation (EET), with a very concessional "t" for benefits taken as lump sums.

From the early to mid-1980s, as retirement income policy in Australia started to change and coverage started to increase, so did the taxation of superannuation. In 1983, significant changes were made to the taxation of superannuation benefits: a tax on lump-sum benefits was introduced (representing the initial break with marginal income tax rates), and some tax relief was provided for benefits taken as income streams. The lump-sum tax was applied at a rate of 15 percent up to a threshold and thereafter at 30 percent. The concessions for income streams applied only to life annuities and included exemption from tax of the earnings of supporting assets (which was later extended to all retirement benefits) and the exclusion from taxable income of that part of the regular payment (income) representing the return of capital (known as the deductible amount).

The mid-1980s heralded the beginning of widespread and then mandatory coverage of superannuation. At this time, a system of centralized wage determination operated in Australia, and the 1986 national wage case included a requirement that employers (covered by industrial awards) provide workers with superannuation contributions in lieu of wage increases. This became known as productivity award superannuation (as the superannuation contributions were offered in return for productivity improvements) and was the beginning of the expansion of

superannuation coverage from mainly full-time white-collar and public sector workers to the entire workforce.

By the beginning of 1988, the taxation of superannuation could still be characterized as EET, with a less generous "T" on lump sums and a more generous "T" on benefits taken as life annuities.

7.3.3 Superannuation Taxation Phase 2 (1988–2007)

The 1980s were a decade of economic reform in Australia. Key reforms included the floating of the exchange rate, the reduction and removal of tariffs, financial market reform, and tax reform. In the second half of the 1980s, Australia introduced a range of taxes, including a capital gains tax, a foreign tax credit system, a fringe benefits tax, and an imputation system. At the same time, inflation was high relative to Australia's trading partners, the current account was growing, and concerns arose about long-term fiscal deficits. In 1988, initiatives introduced to address these and other macroeconomic concerns included a dramatic change to the taxation of superannuation (Keating 1988, 2007). In effect, revenue was brought forward by reducing the taxation of benefits (by around 15 percentage points) and imposing a new 15 percent tax on employer contributions and superannuation fund earnings. The 15/30 tax on lump sums (15 percent up to a threshold and thereafter 30 percent) was reduced to 0/15, and income from lifetime annuities received a 15 percent tax rebate. The concessional tax rates on both lump sums and income streams were capped by reasonable benefit limits (RBLs), above which marginal income tax rates applied.[21]

As a result, Australia moved from an EET (postpaid expenditure tax) to a TTT (comprehensive income tax) approach to the taxation of retirement savings, which was out of sync with international practice. Not only was the taxation of superannuation brought forward, the new "superannuation taxes" were applied at a flat rate that was not linked in any way to the marginal personal income tax schedule.

Following commencement of the mandatory Superannuation Guarantee in 1992, superannuation coverage increased from around 80 percent of workers (under the productivity award arrangements) to close to 95 percent, with only the very young and very poor excluded. In addition, increases in the mandatory contribution rate (from 3–4 percent to 9 percent over the next decade) and strong asset markets resulted in steady growth in superannuation assets.

The compulsory nature of the Superannuation Guarantee, in conjunction with the growing importance of superannuation as a household

asset, contributed to growing awareness of the inequities associated with imposition of the flat-rate superannuation tax on contributions and fund earnings and to considerable political pressure to address these concerns. As a result, the next decade and a half (1992–2007) saw many piecemeal and ad hoc changes to the taxation of superannuation, all with the goal of addressing these equity concerns. Initiatives included the introduction of contribution caps to supplement the lifetime limits (i.e., RBLs), a 15 percent superannuation surcharge on the contributions of high-income earners, and a government co-contribution scheme that provided matching contributions for low-income earners. Changes were also made to the taxation of income streams, with the tax concessions initially provided only to life annuities extended first to term annuities and later to account-based pensions.

By 2006, Australia's TTT approach to the taxation of superannuation had been overlaid by a variety of measures designed to provide differential taxation of contributions by income of the contributor and differential taxation of benefits by type of benefit (and, by implication, differential means-test treatment in the context of Australia's public Age Pension).

7.3.4 Superannuation Taxation Phase 3 (post-2007)

While the overall taxation of superannuation was concessional to the majority of superannuation fund members (Australia's Future Tax System 2010), it was becoming increasingly complicated, and the frequent tinkering to address equity issues created a perception of constant policy change. This culminated in a decision by the government to "simplify" the taxation of superannuation through the Simpler Super reforms announced in the 2006–2007 budget (Commonwealth Treasury 2006). The most important change was the removal of all taxes on superannuation benefits for people 60 and over (subject to "age-based" minimum drawdown requirements). RBLs were abolished, age-based concessional contribution caps were replaced with flat-rate caps, and the exclusion from tax of the earnings on assets supporting selected retirement benefits was extended to all retirement benefits. The tax regime for superannuation moved from TTT to TTE.

However, piecemeal changes to the taxation of superannuation continued over the next decade as successive governments responded to public debate about the fairness of the superannuation tax concessions (Australian Council of Social Services 2015; Association of Superannuation Funds of Australia 2014; Australia Institute 2009; Daley, Coates, and

Wood 2015), often coinciding with the annual release of tax expenditure estimates (see, for example, Commonwealth Treasury 2016b) and expedited by the election cycle. This period saw six changes to the flat-rate contribution caps, (re)introduction of an additional 15 percent contribution tax for high-income earners (the Division 293 tax), and introduction of a system to refund the contribution tax of low-income earners (the Low Income Super Contribution).

7.3.5 Henry Tax Review Recommendations

Besides actual changes to the taxation of superannuation, numerous instances exist of changes proposed or recommended but not implemented. The most comprehensive are the recommendations of the Review of Australia's Tax System—known as the Henry Tax Review (Australia's Future Tax System 2010).

In its final report, the Henry Tax Review recommended that the 15 percent tax on concessional contributions be abolished and that all contributions (employer, personal, self-employed) be taxed at marginal personal income tax rates less a flat-rate refundable tax offset that would be set so the majority of taxpayers would not pay more than 15 percent tax on their contributions. This approach would integrate the taxation of superannuation contributions with the personal tax system (thus ensuring progressivity) and would reduce complexity by removing the tax distinction by contribution type and the need for equity-enhancing add-ons. Also recommended was a halving of the tax rate on superannuation fund earnings to 7.5 percent and an extension of its application to superannuation accounts in both the accumulation and withdrawal phases. After allowing for imputation credits, the effective tax rate on superannuation fund earnings would be close to zero. Benefits would remain tax-exempt since consideration of the taxation of retirement benefits was specifically excluded by the terms of reference for the review.

This approach to reform was largely supported by main superannuation lobby groups and industry associations, and subsequently by the recent Financial System Inquiry (Australian Government 2014). However, because of political influences at the time of the release of the final report, its recommendations were largely ignored by the government. Had these changes been implemented, Australia's taxation of superannuation would resemble TtE (a prepaid expenditure tax), with the "T" on contributions explicitly linked to the personal marginal income tax schedule and the "t" on fund earnings very concessional.

Using a model-based analysis, Kudrna and Woodland (2015, chapter 14, this volume) showed that the Henry Tax Review approach to the taxation of superannuation would lead to improvements in vertical equity, an increase in national savings, and lower public pension outlays.

7.3.6 2016–2017 Budget Reforms to the Taxation of Superannuation

The most recent reforms to the taxation of superannuation were announced in the 2016–2017 budget (Commonwealth Treasury 2016a) and legislated in 2016 for commencement in 2017 and 2018. The stated aim was to improve the equity and sustainability of the superannuation tax arrangements (O'Dwyer 2016). These reforms include a reduction in the annual age-dependent concessional (largely employer) contribution cap to a flat A$25,000; a reduction in the annual nonconcessional (personal) contribution cap from A$180,000 to A$100,000; and initiatives to better target the contribution tax concessions, including confirmation of the continuation of the scheme to refund the contribution taxes of low-income workers, a reduction in the threshold for the application of the additional 15 percent contribution tax on superannuation contributions of high-income earners from A$300,000 to A$250,000; and an extension of access to tax deductions for voluntary personal contributions. Also, the fund earnings tax exemption in the retirement phase was restricted to the first A$1.6 million of retirement assets and was removed for transition to retirement income stream products.

This latest set of changes will enhance the sustainability of the superannuation tax arrangements, and it attempts to better target the tax concessions on superannuation contributions. Overall, the TTE approach to taxation of superannuation has been moderated, with the result that the "T" on contributions applies more progressively and the "E" in the retirement phase is "capped" and less vulnerable to exploitation through tax planning. However, the reforms fall short of explicitly linking the taxation of superannuation with personal income taxes.

7.4 Evaluation of Australia's Approach to the Taxation of Superannuation/Pensions

The taxation of superannuation/pensions can be evaluated by reference to the three standard criteria for tax analysis—efficiency, equity, and administrative simplicity. Also important are policy stability, the impact on individual decision making, and the vulnerability to political risk.

7.4.1 Efficiency

When considering the implications of alternative tax arrangements for economy-wide efficiency, one needs to consider which tax arrangements generate the least-damaging tax distortions, measured in terms of the cost of the resulting inefficient allocation of resources. In terms of the alternative regimes for the taxation of superannuation/pensions, efficiency would be enhanced under an expenditure tax approach where the taxes on consumption are neutral with respect to time, as opposed to a comprehensive income tax (or hybrid) approach where the returns to saving are taxed. Furthermore, those regimes that do not tax the return on assets avoid issues associated with the impact of inflation on net-of-tax real rates of return on long-term saving; that is, with positive inflation, the longer an asset is held, the higher the real effective tax rate. Efficiency would also be enhanced in jurisdictions where alternative assets were taxed similarly, thereby minimizing interasset distortions.

In this context, three main "efficiency" concerns arise with the current Australian TTE approach to the taxation of superannuation:

1. By taxing both contributions and fund earnings and exempting benefits, the Australian approach does not ensure neutrality between present and future consumption. This effect is partially addressed by the low effective tax rate on fund earnings, because of the combination of the 15 percent flat-rate tax and the impact of imputation credits, and initiatives to enhance progressivity of contribution taxes, which likely bring the arrangements closer to allocative neutrality with regard to intertemporal consumption decisions.
2. By imposing any tax on superannuation fund earnings, the Australian arrangements do not address the impact of inflation on the after-tax real rate of return on long-term (superannuation) savings.
3. Different tax rates are applied to saving through superannuation and alternative assets. For example, interest income is taxed at marginal tax rates; dividend income from domestic shares is taxed at marginal tax rates less imputation credits; dividend income from foreign shares is taxed at marginal tax rates less foreign tax credits; income from investment property benefits from tax deductibility of interest payments and other expenses and access to negative gearing (which allows a loss from owning an investment property to be offset against unrelated income for tax purposes); and home ownership is particularly tax effective, since Australia does not tax imputed rents and the family home is exempt from the capital gains tax. In general, superannuation

saving is taxed more favorably than financial assets but less favorably than property investments, which (including home ownership) dominate the household portfolio. It is often argued that tax preference for investment and owner-occupied housing has led to an overemphasis of this asset class in household portfolios at the expense of superannuation and other long-term assets.

7.4.2 Equity

The common interpretation of equity in tax analysis is the "capacity to pay." In this regard, tax regimes that tax progressively—such as arrangements where the taxation of pensions is the same as, or in some way linked to, the personal income tax schedule—are more likely to better address equity concerns. This does not mean that the equity of superannuation/pension taxation should itself be an independent objective. What is relevant is the net fiscal impact of all taxes and transfers. However, a superannuation/pension tax regime that is consistent with broader tax-related equity objectives is likely to be more resistant to political interference on equity grounds.

In this context, two main "equity" concerns have driven most of the public discussion and policy changes. First, taxes on superannuation contributions and fund earnings apply at a flat rate that is not linked to the personal marginal income tax schedule; and second, different types of contributions are taxed differently, and access to favorably taxed contributions (such as through salary sacrifice) has been limited for some people.

7.4.2.1 Flat-rate contribution taxes The main concern associated with taxing contributions at a flat rate of 15 percent is that this is unfair to low-income earners, who would pay less tax (or even no tax) if the contributions were paid as wages, and overly generous to high-income earners, who would pay considerably more tax were the contributions paid as wages. When the contribution tax was first introduced in 1988, it applied at a flat rate of 15 percent to all concessional (mainly employer) contributions. Since then, a variety of adjustments have been introduced (and varied, abolished, and reintroduced) in an attempt to deliver progressivity. The current differences in the tax rates applied to personal income and concessional superannuation contributions are summarized in figure 7.1 and table 7.4.

Figure 7.1 shows a comparison between personal marginal tax rates (the black line), the statutory 15 percent tax on concessional superannua-

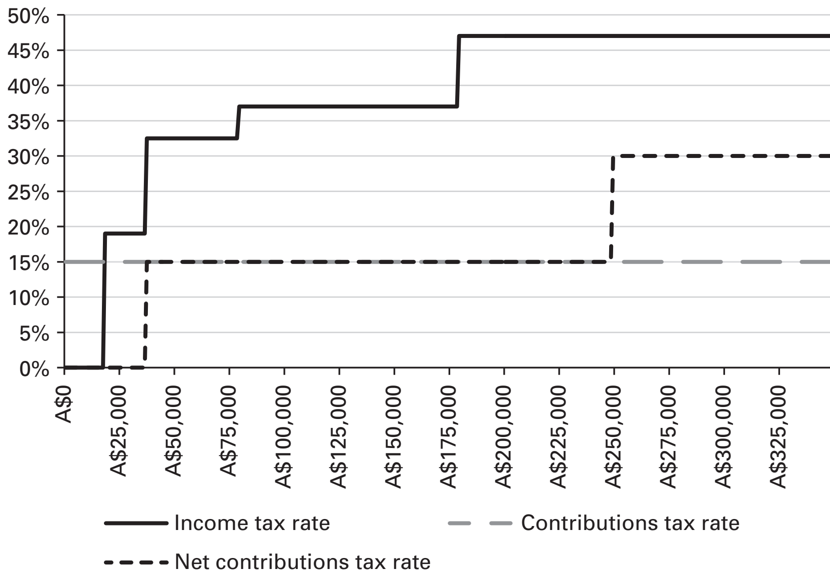

Figure 7.1
Tax on super contributions compared with marginal tax rates on income. *Source*: Author's construction using information on income tax rates from https://www.ato.gov.au/rates/individual-income-tax-rates/ and information on superannuation tax rates from https://www.ato.gov.au/Individuals/Super/Super-and-tax/. *Notes*: Tax rates as of July 1, 2017, excluding the Medicare Levy and the Temporary Budget Repair Levy (on taxable income over A$180,000); the net contribution tax rate is calculated as the 15 percent contributions rate adjusted for the Low Income Super Tax Offset (LISTO), which refunds the contribution tax for people with "income" below A$37,000 and the additional 15 percent tax on "income" in excess of A$250,000; "income" includes reported fringe benefits and employer superannuation contributions; the vertical line indicates full-time adult average weekly earnings (around A$80,000 per year in 2016).

tion contributions (grey dashed line), and the net tax on superannuation contributions after accounting for the Low Income Super Tax Offset (LISTO) (a refund of contribution tax for low-income earners) and the additional 15 percent tax applied to high-income earners (black dashed line). Because of the myriad of policy changes over the past three decades, supplemented by the most recent changes announced in the 2016–2017 budget, the tax concessions on superannuation contributions apply more evenly across the income distribution than when first introduced in 1988, peaking in the income range A$180,000 to A$250,000, with a 32 percentage point tax advantage for superannuation contributions. For most taxpayers, superannuation contributions receive a tax benefit of between 17 and 22 percentage points.

Table 7.4
Tax rates applying to personal income, concessional superannuation contributions, and superannuation earnings.

	Personal income	Concessional superannuation contributions			Fund earnings[a]	
Taxable income (A$)	Marginal tax rate	Tax rate	Net tax rate	Tax concession	Tax rate	Tax concession
< 18,201	0%	15%	0%	0%	15%	–15%
18,201–37,000	19%	15%	0%	19%	15%	4%
37,001–80,000	32.5%	15%	15%	17.5%	15%	17.5%
80,001–180,000	37%	15%	15%	22%	15%	22%
180,001–250,000	47%	15%	15%	32%	15%	32%
> $250,000	47%	15%	30%	17%	15%	32%

Note: Tax rate on superannuation earnings is as of July 1, 2016. Excludes Medicare Levy and Temporary Budget Repair Levy (on taxable income over A$180,000). The actual tax rate on superannuation fund earnings is lower than the statutory rate to the extent that the superannuation assets are invested in domestic equities and receive imputation credits. The overall net tax rate on superannuation fund earnings is around half the statutory rate.
[a] Tax concession assumes statutory tax rates, which would be lower to the extent that the assets are invested in domestic equities.

However, when it comes to taxation of superannuation fund earnings, considerable differences remain in the relative tax concessions across the income distribution (far right column of table 7.4). Earners with very low incomes (i.e., those with incomes below A$18,201 per year) are subject to a significantly higher tax rate on their superannuation fund earnings (15 percent statutory rate, reduced by imputation credits to around half that) than on their income (0 percent), while those earning the highest incomes (i.e., those with incomes above A$180,000 per year) receive a 32 percentage point tax advantage.

Finally, as a result of the changes implemented in 2007 under the Simpler Super reforms, superannuation benefits are tax-exempt for most people (irrespective of the size of the retirement accumulation), and, subject to minimum annual drawdown requirements, earnings on retirement accounts (including transitional super income streams) are tax-free. The 2016 reforms reduced this generosity through better targeting of the tax concessions, including a cap of A$1.6 million of retirement assets eligible for the earnings tax exemption[22] and removal of the earnings tax exemption for transitional super income streams. Combined, these

changes reintroduce a global cap on superannuation tax concessions and limit opportunities for tax planning.

7.4.2.2 Differential access to favorably taxed contributions Another equity concern has been that different types of superannuation contributions are taxed differently. In particular, concessional contributions (which include employer contributions, salary sacrifice contributions, and contributions from the self-employed) are taxed at 15 percent (with variations for low- and high-income earners as described earlier), while employee contributions are fully taxed as income (supplemented by a government co-contribution for those with low incomes).[23] Both issues were addressed in the superannuation tax changes announced and legislated in 2016 that (subject to the concessional contributions cap) extend tax deductibility for personal superannuation contributions to all superannuation fund members.[24]

7.4.2.3 Distribution and cost of the superannuation tax concessions As previously noted, the appropriate measure of the equity (or fairness) of the superannuation tax arrangements is net fiscal impact. Figure 7.2

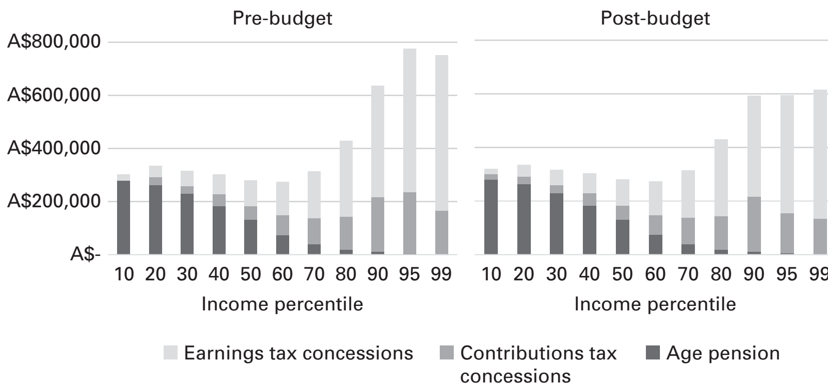

Figure 7.2
Net fiscal impact of superannuation taxes plus the Age Pension in 2016. *Source*: Commonwealth Treasury (2016a). *Note*: Individuals are assumed to commence work in 2016 at age 30 and work until age 70, with a predicted life expectancy of 92. Accumulated superannuation assets are invested in an account-based pension, and individuals are assumed to draw down their assets at the current age-based minimum drawdown rates. The level of tax assistance and Age Pension entitlements are discounted by 5 percent per year to calculate a net present value in 2016 dollars. Annual incomes are calculated for each percentile based on the distribution of earners at each single year of age. No after-tax contributions are assumed.

presents Commonwealth Treasury estimates of the net present value of total government support over a lifetime from the superannuation tax concessions and the means-tested Age Pension before (left panel) and after (right panel) the 2016 reforms. Both figures show a distinct skewness of net government support toward earners with higher incomes but a distinct reduction in this as a result of the recent initiatives.

Such analysis raises questions about the sustainability of the superannuation tax concessions. Recent estimates place Australia highest in the OECD for the cost of tax concessions for superannuation/private pensions (OECD 2015b), and the latest estimates for Australia indicate a continuation of that trend (Commonwealth Treasury 2016b). While arguments can be made regarding the appropriateness of the benchmark and the failure to account for behavioral effects, Australia's approach of flat-rate taxes plus equity-enhancing initiatives is clearly an imperfect substitute for a progressive tax schedule.

Overall, the Australian experience suggests that equity would be easier to achieve if superannuation contributions, earnings, or benefits (under whichever tax regime applies) were taxed at or closely linked to personal marginal tax rates.

7.4.3 Simplicity

For the taxation of superannuation/pensions, administrative simplicity is enhanced where there are fewer tax points and where tax rates are aligned with personal marginal tax rates, thereby requiring fewer add-ons to ensure progressivity. Simplicity would be enhanced under a tax regime where retirement savings were taxed at one point (rather than one, two, or three points) and the same tax rules were applied at each point (for example, to all types of contributions). It is also easier to apply the personal marginal income tax schedule when taxing contributions and benefits than when taxing fund earnings. As the Australian arrangements clearly show, simplicity is compromised where taxes apply at multiple points (i.e., on combinations of contributions, fund earnings, and benefits) and where flat-rate superannuation/pension taxes are supplemented by additional taxes, rebates, deductions, co-contributions, and caps (as described throughout this chapter) to mimic progressivity.

Under the current Australian approach, where a flat 15 percent tax applies to contributions and fund earnings, complexity has arisen not only from the equity-enhancing add-ons but also from political pressure to amend, abolish, and reintroduce over time many of these initiatives and the grandfathering rules. Furthermore, the perception

of ever-increasing complexity is perpetuated through constant revision of new initiatives as they proceed through the consultation and legislative process and through the frequent use of regulatory jargon in the public domain.

Little mention has been made of the complexity of benefits taxation, largely because the Simpler Super reforms of 2007 removed the tax on superannuation benefits for most people aged 60 and over (subject to grandfathering arrangements). However, at the same time, this reform removed the ability to use taxes to influence the purchase of particular income stream products (such as lifetime annuities), which is a useful policy option in the absence of compulsion or defaults. Overall, the Australian approach to the taxation of superannuation/pensions clearly performs poorly in terms of "simplicity."

7.4.4 Other Criteria for Evaluation

7.4.4.1 Policy stability As documented in this chapter, the Australian arrangements for taxation of superannuation/pensions have been the subject of constant change over the past three to four decades. This can be partially explained by the evolution from low-coverage, voluntary superannuation to a broad-coverage, mandatory system and partially by the constant search for a set of initiatives that added progressivity to flat-rate contributions and earnings taxes. This policy design dilemma was exacerbated by successive governments that sought to build and maintain electoral support.

As documented in this chapter, numerous initiatives introduced to enhance progressivity have been amended, abolished, and reintroduced. For example, an extra 15 percent contribution tax for high-income earners was introduced as the superannuation surcharge in 1997, abolished in 2005, and then reintroduced as the Division 293 tax in 2012; the annual concessional contribution cap was first introduced in 1988 as an age-based cap, was changed to a flat-rate cap in 2007, and has since varied six times; and the idea of a lifetime limit on access to superannuation tax concessions was first introduced in the form of RBLs in 1988, which were abolished in 2007 and then reappeared as the A$1.6 million limit on retirement phase accounts to apply from July 1, 2017.

7.4.4.2 Impact on life cycle saving and withdrawal decisions Another issue to consider is that superannuation/pension taxes are not just a source of revenue; they also influence individual decisions and

behavior. While Australia's Superannuation Guarantee mandates participation in a superannuation plan and a minimum contribution rate, individuals are left with the responsibilities of choosing the super fund in which their superannuation savings are managed and accumulate (or to opt for the default), the investment option for their contributions (or opt for the default), whether to make or increase voluntary contributions, and how to manage the drawdown of assets in retirement. These decisions are complex, and individuals need to take account of many factors, including expected time at work and in retirement, future wages, asset returns, expected longevity, changes in family makeup and health status, eligibility for the public pension and other public support, and the relevant tax rules. Recent studies have identified that a large proportion of the population lacks the appropriate financial and tax knowledge and skills to make these decisions (Agnew, Bateman, and Thorp 2013a, 2013b), and it is well known from the behavioral literature that policy complexity inhibits decision making (Bateman 2016).

7.4.4.3 Political risk A major advantage of mandatory private retirement saving is the long-term political insulation it provides relative to public provision. However, governments are still able to compromise this independence by changing pension taxation. As described in this chapter, the separation of superannuation taxes from personal income taxation under the Australian arrangements clearly shows that while superannuation accumulations are managed by private superannuation funds, and therefore are not part of the government budget, they are not completely insulated from political risk.

7.5 Conclusions

As documented in this chapter, Australia's approach to the taxation of pensions differs from that of most of the developed world. While most countries exempt contributions and fund earnings and tax benefits at personal marginal tax rates under a postpaid expenditure tax regime (EET), Australia imposes flat-rate taxes on contributions and fund earnings and (for most people) exempts retirement benefits. While at first glance this may appear to resemble a comprehensive income tax regime (TTE), the increasing progressivity of the taxation of contributions and the concessional taxation of fund earnings brings it closer to

TtE, the conceptual equivalent of a postpaid expenditure approach. The extent to which this is the case depends on whether the flat-rate taxes plus add-ons replicate the personal income tax schedule and whether the concessional treatment of fund earnings matches the taxation of excess returns.

The key lessons from the Australian experience are summarized as follows:

- Taxation of superannuation has been subject to constant change as successive governments sought combinations of design features to add onto the flat-rate contributions and fund earnings taxes to enhance progressivity. This resulted in policy complexity, policy instability, and the politicization of superannuation taxation and affected public confidence in overall retirement income arrangements. A better approach is to align pension taxes with the personal marginal income tax schedule. While this would be possible for contribution taxes, it would be administratively challenging for earnings taxes.
- It is clear from estimates of the net fiscal impact of the superannuation taxes plus the means-tested Age Pension that the flat-rate taxes plus add-ons are an imperfect substitute for the marginal income tax schedule and that the long-term sustainability of the tax concessions needs to be closely monitored.
- The increasing complexity of the Australian arrangements for taxation of superannuation affects both the superannuation funds and individuals—the former because of the administrative costs associated with constant change and the latter by compounding already complex life cycle saving and drawdown decisions.
- The front-loading in the Australian arrangements has the benefit of bringing forward tax revenue and ensures the protection of the tax base in the event of increased international labor mobility.
- Private retirement savings arrangements are not completely insulated from political risk.

Reforms legislated in 2016 will improve the targeting of the superannuation tax concessions. However, in the absence of a direct link with personal marginal tax rates, taxation of superannuation will remain vulnerable to policy instability, which will continue to increase complexity and to challenge public confidence in the retirement income arrangements.

Notes

Comments and feedback from Robert Holzmann, John Piggott, and participants at the CEPAR/CESifo conferences of November 2014 in Sydney and September 2015 in Munich are gratefully acknowledged.

1. A prepaid expenditure tax is also often referred to as TEE, for which no excess returns would be assumed.

2. Although, with the low effective tax rate on superannuation fund earnings, it could also be argued that the current arrangements are closer to a prepaid expenditure tax (TtE).

3. This chapter draws on Bateman, Kingston, and Piggott (2001, chap. 6) and Bateman, Chomik, and Piggott (2016).

4. As noted earlier, the arrangements could also be viewed as a form of prepaid expenditure tax.

5. The discussion in this chapter focuses on the taxation of superannuation in "taxed" superannuation funds. These generally are defined contribution plans and privately managed defined benefit plans. For constitutional reasons, some public defined benefit plans must be taxed under an EET regime. Grandfathering arrangements are ignored.

6. The Superannuation Guarantee is Australia's mandatory superannuation (private pension) scheme. Employers are required to contribute at least 9.5 percent of an employee's earnings to a privately managed superannuation/pension fund on behalf of just about all of their employees.

7. Under a salary sacrifice arrangement, an employer agrees to make an employee contribution from pretax income.

8. For the purpose of superannuation taxation, the self-employed are defined as individuals whose salary and/or wage is less than 10 percent of their income from work.

9. Small business owners can contribute up to A$500,000 from the sale of assets to their superannuation account.

10. Spouse contributions can only be made if the spouse is younger than 65 or is 65–70 and working.

11. This covers people in the bottom two marginal income tax ranges. It is noted that average weekly ordinary time earnings in 2016 were around A$80,000.

12. The Low Income Super Contribution (LISC) was renamed the Low Income Super Tax Offset (LISTO) in July 2017. Under both schemes, the government makes a contribution of up to A$500 per year (in effect, a refund of the 15 percent tax on the mandatory employer contributions under the superannuation guarantee) to their superannuation account.

13. Catch-up contributions will commence in July 2018.

14. That is, people under 65 can bring forward contributions for three years.

15. Retirement benefits are tax-free provided they are paid from a "taxed" fund. A "taxed" fund is one that has paid taxes on contributions and fund earnings. A small

number of public defined benefit funds are constitutionally protected from paying contributions and fund earnings taxes.

16. The tax treatment of private pensions is more complex than table 7.2 suggests, and even within a given country, the taxation of pensions may differ between public pensions, occupational pensions, voluntary and mandatory private pensions, funded and unfunded pensions, and defined contribution and defined benefit pensions.

17. The discussion in this chapter focuses on defined contribution arrangements. While some defined benefit plans still exist in Australia, most are closed to new members.

18. In its 2014–2015 budget, the government announced plans to further increase the Age Pension eligibility age to 70 by 2035, but this has not been legislated.

19. The mandatory employer contribution is scheduled to rise to 12 percent by 2026.

20. The highest marginal tax rate was 65 percent.

21. RBLs operated to limit the tax concessions. The "pension" RBL was double the "lump-sum" RBL (as an incentive for lifetime annuity purchase) and applied when at least 50 percent of the retirement accumulation was annuitized.

22. Excess retirement balances can be held in an accumulation account, and earnings thereon will be subject to the 15 percent fund earnings tax. Note that the A$1.6 million limit does not place a cap on the size of retirement accumulations but sets a cap on the amount retirees can have before paying any tax on their retirement account earnings.

23. Contributions made on behalf of a low-income spouse are fully taxed as income but receive an 18 percent rebate.

24. In addition, the income threshold for a low-income spouse will increase from A$13,800 per year to A$40,000 per year.

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