



Never Stand Still

Faculty of Law

Superannuation Taxation: Options for Best Practice Reform

Preliminary Findings

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This research was conducted in accordance with QUT Ethics Approval Number 8835

All views expressed, errors and omissions are those of the authors alone

Not for quotation or referencing without the written approval of the authors, given the preliminary status of some of the analysis



Background to the research

Australia's superannuation system is the 5th largest occupational retirement savings system in the world

- Repeatedly seen as a world leader (Mercer, 2024)
- Almost A\$4bn as at 30 June 2024 (APRA, 2024)

Individuals increasingly reliant on superannuation in retirement

- *Finch v Telstra* (HCA, 2011)
- Over 80% of working-age Australians participate directly (ABS, 2019-20)

Fiscal support for superannuation in Federal budget is very significant

THE CONVERSATION

Academic rigour, journalistic flair

We need super, but we're taxing it the wrong way round

August 13, 2020 10:42am AEST

FINANCIAL REVIEW

— Exclusive

'Tax-free to the children': 42 super accounts worth more than \$100m

— Opinion

There's a super-sized hole in the budget. Here's why

The forecast big bounce in the tax take on superannuation is just not going to happen because we've



There is significant taxation revenue foregone ...



2023-24 Tax Expenditures and Insights Statement

Date: 31 January 2024

A tax expenditure arises where the tax treatment of a class of taxpayer or an activity differs from the standard tax treatment (tax benchmark) that would otherwise apply. Tax expenditures can include tax exemptions, some deductions, rebates and offsets, concessional or higher tax rates applying to a specific class of taxpayers, and deferrals of tax liability.

The Tax Expenditures and Insights Statement (TEIS) provides estimates of the revenue foregone from tax expenditures, along with distributional analysis on large tax expenditures and commonly utilised features of the tax system.

Transparent reporting of tax expenditures and other aspects of the tax system provides a more complete picture of the impact of government policies on individuals, households and business, and any revenue foregone. The TEIS reports information about revenue the Government does not collect through tax expenditures such as:

- Concessional rates that reduce the rate of tax that applies to certain groups or types of incomes

Table 1.1 Large tax expenditures and deductions by revenue foregone 2023–24

Tax type affected	Code	Title	Distributional analysis included	Revenue foregone 2023-24 (\$m)*	Average growth 2019-20 to 2022-23 (%)
Positive tax expenditures and deductions					
Super Deductions	C2	Concessional taxation of employer superannuation contributions	Y	28,550	11.3
CGT	E8	Main residence exemption – discount component		27,100	8.9
CGT	E7	Main residence exemption		25,000	33.8
Super	C4	Concessional taxation of superannuation entity earnings	Y	20,050	17.7
CGT	E15	Discount for individuals and trusts	Y	19,050	39.8
Deductions		Work-related expenses	Y	10,800	7.5
Income	A26	Exemption for National Disability Insurance Scheme amounts		10,480	35.6
GST	H25	Food		9,100	4.6
Income	B81	Accelerated depreciation for business entities		7,400	NA
GST	H17	Health – medical and health services		5,400	8.9
GST	H2	Financial supplies – input taxed treatment		4,850	10.2
GST	H14	Education		4,100	5.1
Income	A57	Philanthropy – deduction for gifts to deductible gift recipients	Y	3,855	-4.4
Income	B87	Simplified depreciation rules		3,800	165.3
Income	A27	Exemption of Child Care Assistance payments		3,750	15.7
Income	B62	Lower tax rate for small companies	Y	3,400	56.3
Income	B24	Temporary loss carry-back for certain incorporated entities		2,990	NA
FBT	D15	Exemption for public benevolent institutions (excluding hospitals)		2,700	6.5
Income	A20	Medicare levy exemption for residents with taxable income below the low-income thresholds	Y	2,650	4.2
Super	C6	Deductibility of life and total and permanent disability insurance premiums provided inside of superannuation		2,530	1.3
Income	B11	Exemption from interest withholding tax on certain securities		2,180	-5.9
Income	B1	Local government bodies income tax exemption		1,960	5.0
Income	A24	Concessional taxation of non-superannuation termination benefits		1,950	-8.7
GST	H5	Child care services		1,920	10.4
Super	C3	Concessional taxation of personal superannuation contributions	Y	1,750	20.5
Income	A39	Exemption of Family Tax Benefit payments		1,720	-7.7
FBT	D11	Exemption for public and not-for-profit hospitals and public ambulance services		1,700	4.3
Other	F6	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel		1,620	10.5
Deductions		Cost of managing tax affairs and other deductions	Y	1,600	4.6
GST	H18	Health – residential care, community care and other care services		1,600	6.2
Income	A18	Exemption of the Private Health Insurance Rebate		1,550	-2.2
Income	B82	Capital works expenditure deduction		1,450	1.7
Income	A38	Exemption of certain income support benefits, pensions or allowances		1,400	-10.8
Super	C1	Concessional taxation of capital gains for superannuation funds	Y	1,300	7.1
GST	H3	Financial supplies – reduced input tax credits		1,200	10.1
GST	H6	Water, sewerage and drainage		1,190	1.8
FBT	D21	Application of statutory formula to value car benefits		1,100	12.4
Income	B12	Exemption of inbound non-portfolio distributions from income tax		1,060	1.9
Income	B5	Reduced withholding tax under international tax treaties		1,040	6.3
CGT	E32	Small business 50 per cent reduction		990	15.4
Super	C12	Exemption for small business assets held for more than 15 years		930	43.2
Income	A40	Exemptions of certain veterans' pensions, allowances or benefits, compensation, and particular World War II-related payments for persecution		890	0.4
Income	A32	Seniors and pensioners tax offset	Y	850	-6.7
Super	C5	Concessional taxation of unfunded superannuation		830	12.2
Income	B90	International tax – concessional rate of final withholding tax on certain distributions by Australian managed investment trusts to foreign residents		800	13.2

* For deductions, 'Revenue foregone' refers to the reduction in tax in relation to the specified income year due to the utilisation of deductions.



Phase 1: International comparisons

The Australian superannuation system is unusual :

- Compulsory participation for members of the workforce
- Taxed on a TTE model
- Largely DC in nature
- Self-managed option (SMSF) available

Rank	Country	Overall index	Sub-index			Taxation system
			Adequacy	Sustainability	Integrity	
5	Australia	77.3	70.7	78.4	86.1	TTE
1	Netherlands	85.0	85.6	82.4	87.7	EET
3	Denmark	81.3	82.5	82.5	77.8	ETT
4	Israel	80.8	77.0	82.7	84.4	TEE
6	Finland	76.6	77.4	65.6	90.9	EET
7	Norway	74.4	79.4	59.1	87.8	EET
8	Sweden	74.0	72.1	75.6	75.0	ETT
9	UK	73.0	77.3	62.7	80.6	EET
10	Switzerland	72.0	69.6	70.6	77.9	EET
11	Canada	70.2	71.1	64.5	76.7	EET
12	Ireland	70.2	77.1	54.4	81.1	EET
15	New Zealand	68.3	65.6	64.3	78.3	TTE
18	US	63.0	66.7	61.1	59.5	EET



Phase 2: Expert views

44 invitations to participate issued

20 interviews conducted between 2 October and 4 November 2024

2 of the 3 CIs present for each interview

Semi-structured interviews lasted between 30 and 70 minutes

Participants from:

- actuarial, economics and tax accounting professions
- public policy and the academy
- but not regulators or government

Three core questions:

1. What are your views on the efficacy of Australia's superannuation taxation system, which has been regularly questioned in recent years regarding its complexity, inefficiency and inequity?
2. Given how superannuation is taxed in Australia relative to other OECD countries, do you believe the current regime should be reformed and what are the implications of reforming the Australian system?
3. How is the taxation process implemented by the private actors and institutions involved in the system, and is the system meeting its aims (however defined)? Where do unintended vulnerabilities, inequities, and inefficiencies lurk?

Transcripts were coded in InVivo by post-doc researcher



Matters to bear in mind when interpreting the findings



An expert group

The interviews were designed specifically to elicit opinions from an 'in' group that was:

- homogeneous on some dimensions: expert in superannuation, university educated, >45yrs old
- diverse on some dimensions: different market sectors, disciplinary background, gender

An anonymous process

Most participants had a public profile associated with the superannuation system

Anonymity enabled (and occasionally elicited) the expression of views different from or beyond those required of their professional role

“Best practice” is a construct that privileges expert-community norms and case-study instantiation

Preliminary findings

Consensus on:

- The inequity of the system for those on low incomes (sometimes conflated with young members)
- The need to consider superannuation tax settings in the broader tax and social welfare landscape
- The artificiality of the break represented by the transition from accumulation to retirement
- The practical infeasibility of change from a TTE basis for taxation

Near consensus on:

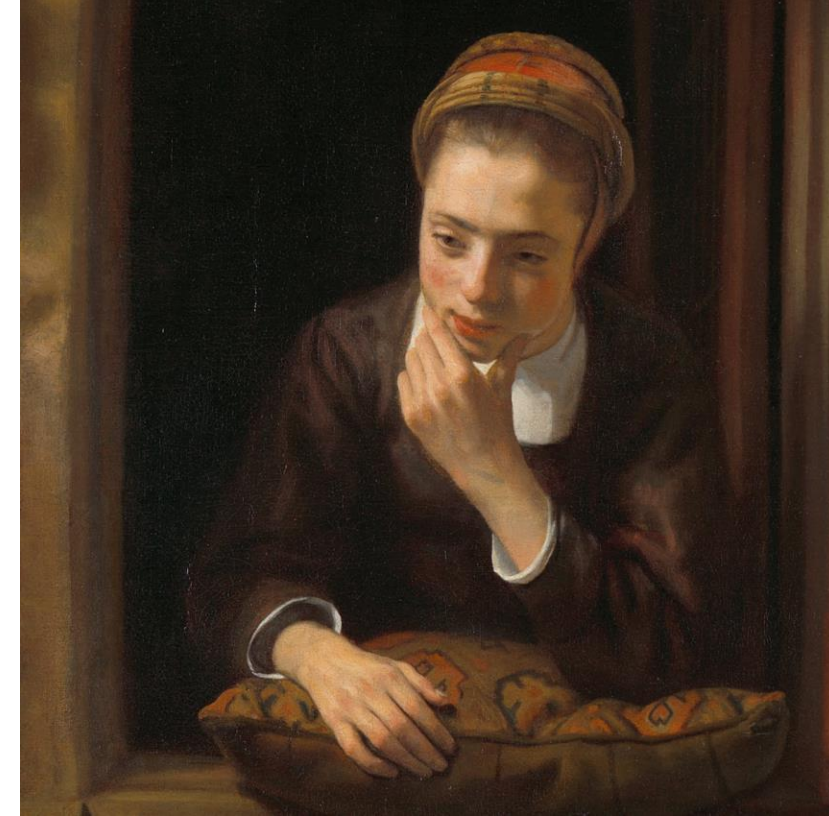
- The inequity of the system for those with large account balances (incl Div 296)
- The complexity of the system - with divergence on whether this was avoidable

Relatively less reference to:

- Efficiency
- Gender equity

Almost no discussion of:

- Global comparisons (too complicated given differences, or simply not familiar)
- Tax 'discretions' and governance (even when prompted)
- Sustainability (inter-generational or environmental)
- The periphery, incl indigenous and 'unwaged' sectors



Open question
Would a non-expert group view this differently?

Open question
Is this because of the way the research and the questions were framed, and if so what does that say about policy discourse in this area?

Unfinished business ...

Participants did offer specific suggestions to address perceived deficiencies - these need to be collated

There are points of distinction in relation to SMSFs, though perhaps fewer than we expected

Other questions?

