Cap on big balances gains favour

Concessions

John Kehoe and Hannah Wootton

Super savings

Tax concessions on the table

Possible tax change	Annual revenue gain to government
Tax investment earnings at 15% for super retirees in pension phase, instead of zero	$6b
Levy higher 30% tax rate on earnings for super balances above $2m, not 15%	$1.5b
Cap super account balances	$1b-$1.5b from $5m cap $2.5b from $2m cap
Lower pre-tax contributions cap to $20,000 from $27,500	$1.5b
Lower division 293 tax surcharge threshold by $50,000 to $200,000	$550m to $600m
Freeze indexation on the transfer balance cap to keep tax-free super savings in retirement accounts to $1.7m	Small saving at first, larger saving over long-term
Lower annual non-concessional contribution limits from $110,000 to $75,000	$2b over 10 years
Abolish catch-up concessional contributions	$10.4b over 10 years
Impose tax on lump sum super death benefits paid to a beneficiary (eg. child)	Likely negligible without a broader inheritance tax

SOURCE: GRATTAN INSTITUTE, FSC, PARLIAMENTARY BUDGET OFFICE, FINANCIAL REVIEW

The Albanese government is preparing a crackdown on superannuation tax concessions via a cap on multimillion-dollar balances that is likely to be unveiled in the May budget, but experts say larger budget savings of $6 billion a year could be delivered by ending zero tax on investment earnings for retirees.

Prime Minister Anthony Albanese yesterday endorsed Treasurer Jim Chalmers' call for the sustainability and equity of super tax breaks to be considered because super tax concessions would cost more than the age pension by about 2050.

"Our government makes no apologies for pointing out what the future looks like in 10, 20 years' time if there isn't a debate about change. And we are engaged in that debate very clearly," Mr Albanese said.

Grattan Institute economic policy program director Brendan Coates said the $3.3 trillion super system was being used for "tax planning" and had turned into a "taxpayer-funded inheritance scheme".

"The elephant in the room is the tax-free earnings in retirement for balances up to $1.7 million, soon to be $1.9 million from July and $2 million by 2024," Mr Coates said.

"It allows older Australians earning upwards of $100,000 a year to opt out of the income tax system at the age of 60, which is simply not sustainable in a world where the community expects us to spend more on aged care, healthcare and disability."

Grattan proposes that retirees pay the same headline 15 per cent rate on super fund investment earnings as working-age account holders, a move that could raise about $6 billion a year for the government.

Another option Grattan proposes is either capping balances at $2 million, or accounts over this threshold paying a 30 per cent rate on earnings, up from 15 per cent. This could raise about $1.5 billion a year.

A cap on large super balances is one of the options being actively explored by the government, sources said.

Big super funds have backed a $5 million cap, but doubt has been cast on industry claims this would save the budget $1.5 billion a year, with others estimating it would save less than $1 billion. About 11,000 Australians have more than $5 million in super.

Mercer senior partner and actuary David Knox proposed capping the maximum super balance at double the $1.7 million transfer balance cap or $3.4 million, which are scheduled to be inflation-indexed to $1.9 million and $3.8 million respectively in July.

"The super system is there to generate retirement income to a reasonable benefit, and when you have $3.8 million I don't think you need additional tax support," Mr Knox said.

In addition, Mr Knox said applying the Division 293 tax surcharge of 15 per cent (total 30 per cent) on contributions for people earning more than $225,000 a year including super contributions (down from the current $250,000 threshold), could help the Labor government fund its aspiration to pay super on paid parental leave.

Centre for Independent Studies senior fellow Robert Carling said a cap would be "blatant retrospectivity and should not win the day".

"It is a ruse by industry super to focus attention on a policy change that would do little or no harm to their own members and balances while doing a lot of harm to self-managed super.

"People have accumulated those balances legitimately under the rules."