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NATSEM at the University of Canberra

The impact of the 2016-17 budget superannuation changes by age group and gender

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Note: In the original version of this release, the number of people affected was doubled. This has been corrected in this addendum. The change does not affect any of the other results, not does it change the story.

NATSEM has used its Tax/Transfer microsimulation model (STINMOD+) to look at the changes in tax paid by age group and gender as a result of the superannuation contribution changes for those who lost due to the proposed policy. The age groups used were 30 – 49 (establishing career and families); 50 – 64 (established careers and with teenagers); and 65 and over (retirees). Those under age 30 were not analysed as there were not enough losers from the policy to provide reliable results (ie, there were very few paying more than $30,000 as a concessional contribution into super).

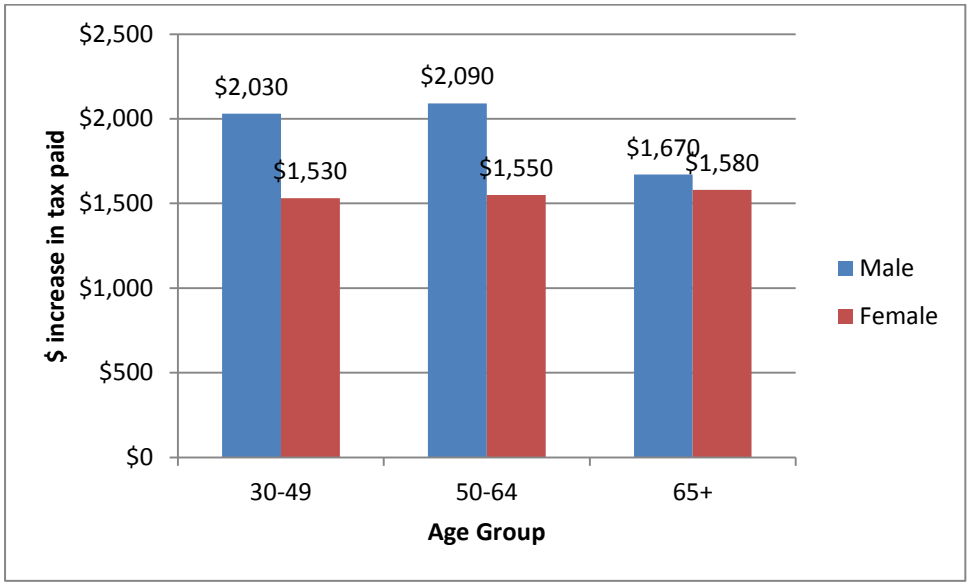
This analysis shows the average change for those who lose from the change. Anyone not affected by the changes was not included in calculating the average change. This was because the overall impact on losers was negated by those who were not affected at all, so with a 0 impact. There were no winners from the change. We have also only looked at the contributions phase, not the retirement phase.

The results comparing the proposed policy with the 2015-16 rules with 2015-16 financial data (incomes, tax rates, etc - so the system as it is now) are shown in Figure 1. It can be seen that Males aged 50 – 64 are most affected by the superannuation changes, with those who lose due to these changes losing on average $2,090 a year. Males are affected more than females, due to higher incomes and therefore higher contributions at these ages.

A total of 305,000 males (nearly 5% of the 6.4 million workforce) and 89,000 females (1.5% of the 5.5 million workforce) were affected.

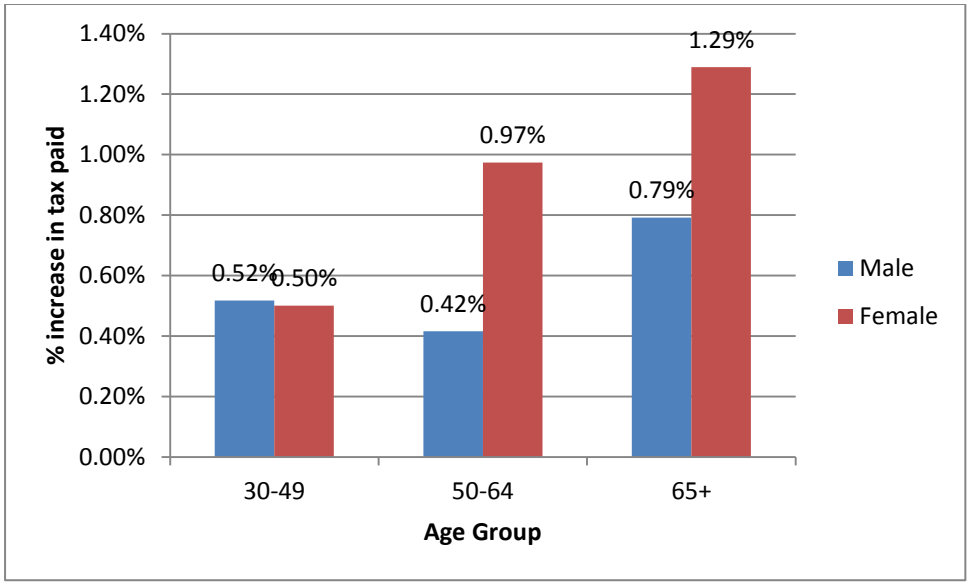
The main driver of this change is the change in the contributions cap from $30,000 ($35,000 for those aged over 50) to $25,000. There were two other changes to the way contributions are taxed - a lifetime cap of $500,000 for non-concessional contributions was introduced, which we have not been able to include in the modelling due to no data on lifetime contributions. The other change was the threshold for the extra 15% superannuation contributions tax (the Division 293 tax) was reduced from an income of $300,000 to $250,000, and this was included in the modelling, but only those with very high incomes are affected.

Figure 1: Change in tax paid as a result of superannuation contributions changes, 2015-16



One argument that could be made is that those with higher incomes are going to be paying a higher super contribution, so we also looked at the increase in tax paid as a proportion of annual income for these age groups and gender split. This shows a different picture, with females aged over 50 paying the highest increase as a proportion of their income (0.97% for 50 – 64 year olds and 1.29% for 65+). This is because females in these age groups are earning a lower average income than males, so while males pay more as an absolute amount, females pay more as a proportion of their overall income.

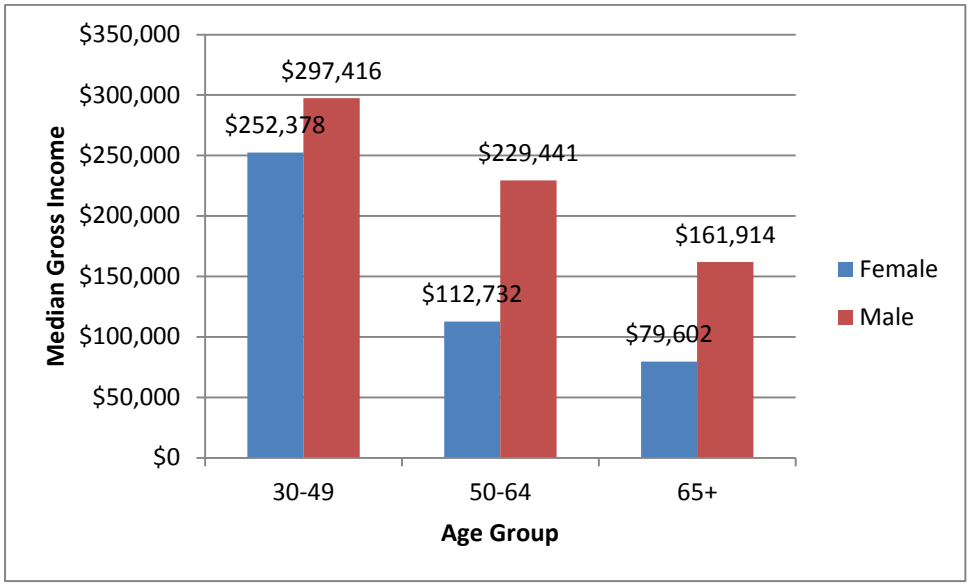
Figure 2: Change in tax paid as a result of superannuation contributions changes, 2015-16, as a per cent of income



While it could be argued that this policy change affects high income earners contributing large amounts to super, when we looked at the impact by gross income, we see that while this is the case

for males, this is not the case for females aged 50 - 64, where the median income of those affected was $112,732, a reasonable income for women to think about contributing more to their concessional super.

Figure 3: Median gross income of those affected by age and gender, 2015-16



What these results suggest is that this policy is going to discourage female workers aged 50 – 64 and 65 and over contributing concessional amounts to superannuation, mainly due to the proposed tax on concessional contributions over $25,000 per year. The age groups affected most are at a stage in their lives where they should be thinking of contributing more to superannuation, and those in our modelling are earning enough to be able to do this, and should be encouraged to do it as contributions at the family building stage (30 – 49) are usually lower due to part time work and caring responsibilities. Unfortunately, the contributions cap will discourage females in these age groups contributing more to their super.

Some of this effect may be reduced through the policy of being able to accrue the difference between actual concessional contributions and the cap over 5 years on a rolling basis (the catch-up concessional contributions). This impact has not been modelled in this scenario, as we are only looking at those who are contributing above $25,000, and the catch-up policy applies to those contributing under $25,000 for a period. We are also only looking at the ‘day after’ impact of the policy in 2015-16 compared to a current policy 2015-16 baseline, where the catch-up concessional contributions policy will apply over time.

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Further Information

NATSEM has published a range of information on the 2016/17 budget at:

www.ausbudget.org

Important documents released so far have been How does the budget affect us and NATSEM preliminary Budget analysis 2016: An Enterprise Budget in Times of Mistrust

NATSEM's Tax/Transfer Microsimulation model

Microsimulation modelling applies the Commonwealth Government tax and transfer rules to data at the individual and household levels. This means complex Government Tax/Transfer policies can be modelled, incorporating complex interactions between different policies. The same kind of modelling systems are used extensively by the Commonwealth Government in Australia and worldwide.

STINMOD+ is classified as a static microsimulation model, which means it estimates the 'day after' impact of a policy. It measures the impact of the policy without any change in behaviour, for example, a decision to change working hours after a tax change. This is the same type of model used by the Commonwealth to estimate the impact of proposed tax/transfer policies. One advantage of this model is that it provides estimates of short run effects for the policy changes that do not change the economic structure significantly. However, it should not be used to estimate long term effects or for policy changes that are likely to change economic agents' behaviour.

STINMOD+ is the successor of the original STINMOD model, a pioneering modelling system since the mid-1990s, widely used by various Commonwealth Government agencies. The latest model STINMOD+ has incorporated many new modelling techniques and has greatly improved the efficiency and the maintainability of the original code.

To discuss any aspect of this proposal, please contact Professor Robert Tanton on 02 6201 2769 or 0420 319450.