Inland Revenue
Te Tari Taake

POLICY AND STRATEGY

THE TREASURY
Kaitohutohu Kaupapa Rawa

Tax Policy Report: Joint Report: KiwiSaver and the Taxation of Retirement Savings

Date:	18/2/2019	**Report No:**	T2019/297 IR2019/081
		File Number:	SH-13-8-1-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Indicate whether you require any further advice on the taxation of retirement savings	Monday 25 February
Minister of Revenue (Hon Stuart Nash)	Indicate whether you require any further advice on the taxation of retirement savings	Monday 25 February

Contact for Telephone Discussion (if required)

Name	Position		Telephone	1st Contact
Bevan Lye	Principal Advisor - Tax Strategy	s9(2)(a)	N/A	✓
Mark Vink	Manager - Tax Strategy		N/A	
Phil Whittington	Acting Chief Economist, Inland Revenue		N/A	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Tax Policy Report: Joint Report: KiwiSaver and the Taxation of Retirement Savings

Executive Summary

This report responds to your request for advice and information on four issues:

1. An assessment of the Chamberlain and Littlewood submission

You have requested an assessment of the Chamberlain and Littlewood submission on the merits of tax concessions for saving. In summary, officials are less confident than Chamberlain and Littlewood that current levels of retirement saving are adequate. On the basis of available evidence, however, officials agree with Chamberlain and Littlewood that tax concessions for saving tend to be ineffective, regressive, and distortionary.

There are three main planks to the argument advanced in the submission:

a. **Retirement savings adequacy.** Chamberlain and Littlewood argue there is no evidence to suggest that New Zealanders are generally under-saving for retirement.

Officials comment: According to the existing literature, most New Zealanders appear to be saving adequately for retirement. However, this finding rests on the condition that future generations will continue to access New Zealand Superannuation (NZS) under existing policy settings. This condition will not hold if long-term fiscal pressures lead to change to NZS settings. Officials are therefore less confident than Chamberlain and Littlewood that current levels of retirement saving can be said to be adequate.

b. **The effectiveness of tax concessions.** Chamberlain and Littlewood claim there is little evidence to suggest that tax concessions encourage additional private saving.

Officials comment: Officials agree there is little evidence to suggest that tax concessions generate material increases in private saving. Instead, tax concessions tend to encourage a reallocation of existing savings into the tax-preferred vehicle.

c. **The costs and impacts of tax concessions.** Chamberlain and Littlewood argue that tax concessions are expensive, regressive, and distortionary.

Officials comment: Officials agree that untargeted tax concessions for saving will primarily benefit the wealthiest households. Targeted tax concessions will be less regressive, but are also less likely to result in additional private saving. The costs of tax concessions depend heavily on design.

2. An assessment of removing income tax obligations from KiwiSaver

You have asked for an assessment of the impact of removing income tax obligations from KiwiSaver. Officials have modelled the revenue impact of various options for removing income tax obligations with effect from 1 April 2020.

One important assumption in this modelling is that there would be *no behavioural change* arising from the policy change. This is a constrained assumption that was necessary to simplify the modelling task. In practice, it is likely that there would be a substantial reallocation of savings to take advantage of tax-exempt KiwiSaver accounts.

The following estimates therefore understate – probably substantially – the revenue impacts of the options.[1]

a. A switch to 'EET' taxation of KiwiSaver. The first option is to exempt KiwiSaver contributions and earnings, but tax withdrawals. Table 1 sets out the estimated revenue impact of the changes in 2020/21, 2021/22, and 2022/23:

Table 1: Revenue impact of exempting KiwiSaver contributions and earnings

$ million	2020/21	2021/22	2022/23
Exemption of contributions	2,110	2,330	2,580
Exemption of earnings	200	210	220
Taxation of withdrawals	-	-	-
Total	**2,310**	**2,540**	**2,800**

EET taxation would effectively *defer* the taxation of KiwiSaver contributions into the future. It is likely that little tax will be collected from taxing withdrawals in the forecast period. In the very long term, however, the revenue from taxing withdrawals should grow to a similar order of magnitude to the revenue foregone from exempting contributions.

b. A switch to 'TEE' taxation of KiwiSaver. A less costly option in the short run would be to tax contributions, but exempt earnings and withdrawals. Based on the estimates outlined in Table 1, this is estimated to cost approximately $200-210 million *per annum* across the forecast period, excluding any behavioural impacts. Officials expect that the behavioural impacts would be significant.

c. Removing all income tax obligations from KiwiSaver. If withdrawals also become exempt, then the loss of revenue from exempting contributions and earnings will never be clawed back. Officials are not aware of any other country that exempts retirement saving accounts altogether from taxation. This would be a very regressive change.

The treatment of non-KiwiSaver saving schemes

Extending similar treatment to non-KiwiSaver saving schemes (such as employer schemes, the State Sector Retirement Saving Schemes, and the Government Superannuation Fund schemes) would increase the revenue impacts further. Table 2 illustrates the revenue impact of exempting earnings from all saving schemes:

Table 2: Revenue impact of applying TEE taxation to KiwiSaver and non-KiwiSaver schemes

$ million	2020/21	2021/22	2022/23
Cost of exemption	520	550	570

Table 3 illustrates the revenue impact of removing all income tax obligations from KiwiSaver and non-KiwiSaver saving schemes:

[1] There are some other assumptions and caveats to these estimates. The modelling assumes a fixed growth of income and contributions for all saving schemes. In practice, growth may be different. (In particular, it is possible that KiwiSaver savings grow faster than savings in other schemes, in which case the cost of exempting KiwiSaver will grow faster than forecast.) Also, each of the options are costed on a stand-alone basis; the fiscal cost can differ when different options are packaged together.

Table 3: Revenue impact of removing all income tax obligations from KiwiSaver and non-KiwiSaver saving schemes

$ million	2020/21	2021/22	2022/23
Cost of exemption	3,990	4,240	4,510

Implications for an extension of capital income taxation

Officials estimate that exempting KiwiSaver will reduce forecast revenue from a broad-based extension of capital income taxation (as proposed by the Tax Working Group) by approximately $84 million *per annum*. In the time available, officials have not been able to estimate the impact of exempting non-KiwiSaver saving schemes from an extension of capital income taxation.

3. The Australian retirement income system

You have asked for a brief explanation of the Australian approach to taxing retirement savings. The Australian system is complicated. The following description is taken from publicly-available sources and does not go into the more technical rules.

In Australia, compulsory saving by individuals is intended to supplement or replace a means-tested state pension (the 'Age Pension'). The tax treatment of superannuation is highly concessional, as it is intended to encourage individuals to save more for their retirement – and thereby reduce the fiscal costs of the Age Pension.

Australian superannuation money is taxed in three phases:

- **The contributions phase.** The tax payable on super contributions depends on the type of contribution and the personal circumstances of the taxpayer. Employer and salary contributions are taxed at 15% when they are received by a super fund. Low income taxpayers receive a small refund; high income taxpayers must pay an additional tax.

- **The earnings phase.** Income earned in a super fund is taxed at a maximum rate of 15%. Capital gains on assets held for longer than 12 months within the fund are taxed at 10%. The amount of tax paid by a fund can be reduced by various tax deductions or credits.

- **The payout phase.** When an individual becomes eligible to access their super, they can take a 'super income stream' to provide them with a regular income, or withdraw a lump sum. Super income streams and withdrawals are usually tax-free for individuals aged over 60. Early withdrawals before the age of 60 are allowed in limited circumstances, and are subject to taxation after exceeding a threshold. When a person dies, their super balance is usually paid to their nominated beneficiary. This is called a 'super death benefit.' Some components of the super death benefit are taxable.

The Australian system is expensive and regressive. Much of the value of Australia's superannuation tax concessions flows to high income earners.

There is also an important interaction between superannuation and capital gains taxation in Australia. The concessional treatment of superannuation has created a need for an equally concessional treatment of gains from small businesses, since many entrepreneurs 'save' for their retirement by building up their businesses.

In New Zealand, the absence of generous concessions for retirement saving means there will be less of a case to introduce similar types of small business concessions if there is an extension of capital income taxation.

4. The distributional impacts of the Tax Working Group's proposals for KiwiSaver

The appendix responds to your request for scenarios outlining the distributional impacts of the Tax Working Group's proposals for KiwiSaver.

Recommended Action

We recommend that you:

a **indicate** whether you require any further advice on the taxation of retirement savings.

Yes/no.

Yes/no.

Mark Vink
Manager, Tax Strategy

Phil Whittington
Acting Chief Economist, Inland Revenue

Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

Tax Policy Report: Joint Report: KiwiSaver and the Taxation of Retirement Savings

Purpose of Report

1. This report responds to your request for advice and information on the following issues:

    - An assessment of the submission on 'KiwiSaver and tax' by Michael Chamberlain and Michael Littlewood.
    - An assessment of the impact of removing income tax obligations from KiwiSaver accounts.
    - A description of the Australian approach to taxing retirement saving accounts.

2. The appendix responds to your request for scenarios outlining the distributional impacts of the Tax Working Group's proposals for KiwiSaver.

An assessment of the Chamberlain and Littlewood submission

3. In October 2018, Chamberlain and Littlewood provided you with a submission on the retirement saving proposals in the Interim Report of the Tax Working Group. In their submission, Chamberlain and Littlewood argue that there is no case to provide tax concessions for saving.

4. Their argument is based on three main propositions:

    - **Retirement savings adequacy** – that there is no evidence to suggest that New Zealanders are generally under-saving for retirement.
    - **The effectiveness of tax concessions** – that it is unclear whether tax concessions actually encourage *additional* saving (rather than simply encouraging the reallocation of existing savings into tax-favoured vehicles).
    - **The costs and impacts of tax concessions** – that tax concessions are expensive, regressive, and distortionary.

Retirement saving adequacy

5. Chamberlain and Littlewood have surveyed a wide range of literature on the saving habits of New Zealanders. The literature indicates that most New Zealanders do appear to be saving adequately for retirement.

6. Moreover, as Chamberlain and Littlewood note, the great majority of older New Zealanders have sufficient income and assets to provide a reasonable standard of living. A small group of older New Zealanders live in material hardship, but the hardship rate for older New Zealanders is lower than for any other age group.[2]

[2] Perry, B. (2018). *Household Incomes in New Zealand: Trends in indicators of inequality and hardship 1982-2017*.

7. These outcomes result from a mix of public income support (mainly through New Zealand Superannuation) and the private savings built up by most of the current cohort over their lifetime.

8. There are, however, some risks to these outcomes. As the Tax Working Group notes, falling rates of homeownership will affect the adequacy of retirement savings.

9. Chamberlain and Littlewood claim that limitations in census data make it impossible to assess whether the home ownership rate is actually falling. However, research published by the Ministry of Social Development indicates that:

    - Cohorts approaching retirement age have declining rates of mortgage-free home ownership.
    - Cohorts approaching retirement age face increasing housing costs as a percentage of income.
    - An increasing proportion of people over the age of 65 live in a home with a mortgage.[3]

10. Taken together, these trends suggest that old age poverty and hardship rates may rise in the future, unless younger cohorts have been able to accumulate substantial assets outside of real estate.[4]

The fiscal sustainability of New Zealand Superannuation

11. The Tax Working Group agrees that most New Zealanders appear to be saving enough for retirement, subject to the condition that future generations remain eligible for New Zealand Superannuation under existing policy settings. The Group cautions that this assumption may not hold if long-term fiscal pressures require change to the scheme.

12. The cost of New Zealand Superannuation is projected to increase substantially over the next fifty years, but Chamberlain and Littlewood believe this path is still fiscally sustainable. They point out that the absolute level of pension expenditure in New Zealand is projected to remain low relative to other OECD countries.

13. Officials disagree with this judgement. The sustained increase in pension expenditure will reduce the Government's ability to manage other calls on its resources. The increase in pension expenditure will also be accompanied by aging-driven increases in other areas of public spending, such as healthcare.[5] It therefore seems unlikely that the existing policy settings for New Zealand Superannuation can be maintained indefinitely into the future.

The effectiveness of tax concessions

14. Chamberlain and Littlewood argue there is little evidence to suggest that tax concessions encourage additional saving by individuals, and that tax concessions generally encourage individuals to reallocate existing savings into the tax-preferred vehicles.

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3 Ibid.

4 There is some evidence to suggest, however, that the average savings rates of each generation have been exceeding those of preceding generations, from the baby boomers onwards. See Vink, M. (2014). *Intergenerational Developments in Household Saving Behaviour*.

5 The Treasury (2016). *He Tirohanga Mokopuna: 2016 Statement on the Long-Term Fiscal Position*.

15. It is difficult to quantify the impact of tax concessions on saving behaviour, because of the need to make judgements about what would have happened in the absence of the concessions. Nevertheless, the submission from Chamberlain and Littlewood is a fair summary of the literature on this subject.

16. A number of empirical studies have tried to identify a correlation between saving rates and returns to savings in general, and tax incentives for savings in particular. Many of these studies are summarised in the OECD's tax policy study on tax-preferred savings accounts.[6]

17. Despite using a variety of methodologies, most studies have identified only weak correlations between tax incentives and amounts saved. Some studies have found that tax concessions actually reduce rates of private saving.[7]

18. One common finding, however, is that tax concessions tend to generate a significant *reallocation* of existing savings. A New Zealand study based on survey data, for example, found that only one-third of contributions to KiwiSaver accounts represented additional saving; the other two-thirds were reallocated from other saving vehicles.[8] Another New Zealand study, based on administrative data, found that KiwiSaver membership has not been associated with *any* increase in net wealth accumulation.[9]

National saving

19. When thinking about the effectiveness of tax concessions, it is also important to distinguish between *public*, *private*, and *national* saving. Tax concessions may generate some additional private saving, but they will reduce public saving if the cost of the concessions increases the budget deficit. National saving may even fall overall if the reduction in public saving outweighs the increase in private saving.

The costs and impacts of tax concessions

20. Chamberlain and Littlewood argue that tax concessions for saving are regressive, distortionary, and expensive. Officials agree that untargeted concessions are likely to be regressive and expensive. Targeted concessions, on the other hand, will be less regressive – but also less effective at generating increases in private saving.

Distributional impacts

21. At all age levels, higher income households save more than lower income households. The distribution of asset ownership is also very skewed, particularly for financial assets. The top quintile of households by wealth, for example, owns 84% of financial assets in New Zealand.[10]

22. The skewed distribution of household assets arises partly from the fact that individuals are at different points in their lifecycle, but there is still significant inequality in lifetime wealth outcomes between households.[11]

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6 OECD Tax Policy Studies No. 15 *Encouraging Savings through Tax-Preferred Savings Accounts* (2007).

7 This result arises because many individuals save in order to achieve defined saving goals (such as saving up for a first home deposit, or accumulating a certain amount of wealth in order to feel comfortable enough to retire). Tax concessions improve the net return on investments, and therefore reduce the amount that individuals need to put aside in order to achieve their saving goals.

8 Law, D., G. Scobie and L. Meehan (2011). *KiwiSaver: An Initial Evaluation of the Impact on Retirement Saving*.

9 Law, D. and G. Scobie (2014). *KiwiSaver and the Accumulation of Net Wealth.*

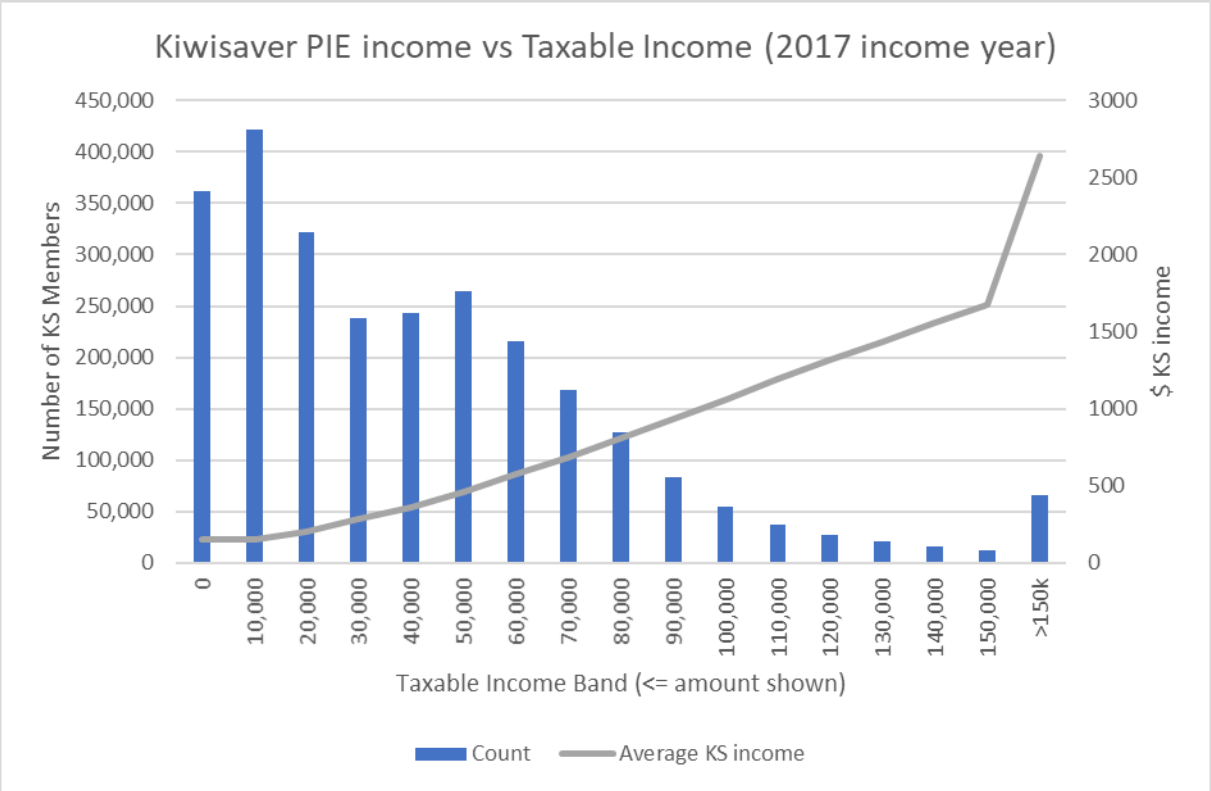
10 Statistics New Zealand, *2015 Household Economic Survey*.

11 Rashbrooke, G., M. Rashbrooke and W. Molano (2017). *Wealth Disparities in New Zealand: Final Report.*

23. This result is reflected in the distribution of KiwiSaver assets. Approximately 2.7 million individuals were enrolled in KiwiSaver in March 2017, earning capital income of $1.3 billion. According to Inland Revenue data, average earnings from KiwiSaver portfolio investment entities (PIEs) increased with taxable income:

    - Individuals with taxable income of up to $10,000 per year earned an average of around $150 *per annum* from their KiwiSaver investments.
    - Individuals with taxable income between $140,000 and $150,000 earned an average earnings of about $1,700 *per annum* from their KiwiSaver investments.

24. The figure below shows the count of individuals by taxable income and average annual earnings.



Source: Inland Revenue

25. The skewed distribution of asset ownership means that untargeted tax concessions for saving will primarily benefit the wealthiest households. Targeted tax concessions will be less regressive, but are less likely to result in additional private saving for two main reasons:

    - Income constraints will prevent some lower income households from increasing their saving rate in response to the concessions, even if they wished to do so.
    - Higher income households – who have the greatest capacity to save – will have little incentive to save further because they will derive no marginal tax benefit from additional saving.[12]

12 This analysis relies on the assumption that tax concessions, if available to higher income households, would generate additional saving. As noted earlier, this assumption is debatable.

Distortions

26. Tax concessions will generate efficiency costs as individuals rearrange their savings to take advantage of tax benefits. These distortions may encourage people to invest in locked-in savings accounts, rather than in more liquid forms of savings or in businesses – even when alternative forms of savings would be preferable in the absence of tax. These types of distortions can reduce productivity if individuals invest in otherwise unproductive investments solely for tax reasons.

27. All else equal, other taxes will need to rise to make up for the loss in revenue from retirement saving accounts. These taxes will generate efficiency costs of their own.

Fiscal impacts

28. The cost of tax concessions varies greatly, and will depend on the details of policy design. By way of illustration, the saving incentives considered by the Tax Working Group had revenue impacts of between $35 million and $2.5 billion *per annum*.

An assessment of removing income tax obligations from KiwiSaver

29. You have asked for an assessment of the impact of removing income tax obligations from KiwiSaver.

A switch to 'EET' taxation of KiwiSaver

30. At the request of the Tax Working Group, the Secretariat modelled the impact of taxing KiwiSaver on an 'EET' basis rather than a 'TTE' basis. This would involve exempting Kiwisaver contributions and earnings, but taxing withdrawals.[13] The modelling assumed that the policy would take effect from 1 April 2020, and that the rules regarding the contribution rates and Member Tax Credit would remain unchanged.[14]

31. The modelling also involved an important assumption that there would be *no behavioural change*. This is a constrained assumption that was necessary to simplify the modelling task. In practice, it is likely that there would be a substantial reallocation of savings to take advantage of tax-exempt KiwiSaver accounts. The estimates therefore understate – probably substantially – the revenue impacts of the change.[15]

32. Table 1 sets out the estimated revenue impact of a switch to EET taxation in 2020/21, 2021/22, and 2022/23:

Table 1: Revenue impact of exempting KiwiSaver contributions and earnings

$ million	2020/21	2021/22	2022/23
Exemption of contributions	2,110	2,330	2,580
Exemption of earnings	200	210	220
Taxation of withdrawals	-	-	-
Total	**2,310**	**2,540**	**2,800**

13 'TTE' ('taxed – taxed – exempt') means that contributions and earnings will be taxed, but withdrawals are exempt. 'EET' ('exempt – exempt – taxed') means that contributions and earnings are exempt, but withdrawals will be taxed.

14 Repeal of the Member Tax Credit would reduce the fiscal cost of the change, but it would also be a regressive measure.

15 There are some other assumptions and caveats to these estimates. The modelling assumes a fixed growth of income and contributions for all saving schemes. In practice, growth may be different. (In particular, it is possible that KiwiSaver savings grow faster than savings in other schemes, in which case the cost of exempting KiwiSaver will grow faster than forecast.) Also, each of the options are costed on a stand-alone basis; the fiscal cost can differ when different options are packaged together.

33. EET taxation would effectively *defer* the taxation of KiwiSaver contributions into the future. It is likely that little tax will be collected from taxing withdrawals in the forecast period.[16] In the very long term, however, the revenue from taxing withdrawals should grow to a similar order of magnitude to the revenue foregone from exempting contributions.

34. EET taxation would be administratively complex. Existing retirement accounts would need to be grandparented, in order to avoid triple taxation on a 'TTT' basis.

A switch to 'TEE' taxation of KiwiSaver

35. A less costly option in the short run would be to tax contributions, but exempt earnings and withdrawals (TEE taxation). Based on the estimates outlined in Table 1, this is estimated to cost approximately $200-210 million *per annum* across the forecast period, excluding any behavioural impacts. Officials expect that the behavioural impacts would be significant.

Removing all income tax obligations from KiwiSaver

36. If withdrawals also become exempt – i.e. an 'EEE' approach to KiwiSaver – then the loss of revenue from exempting contributions would never be clawed back. Officials are not aware of any other country that exempts retirement saving accounts altogether from taxation. This would be a very regressive change.

The treatment of non-KiwiSaver saving schemes

37. KiwiSaver is not the only saving scheme available to New Zealanders. Many New Zealanders are members of other private or occupational saving schemes (such as employer schemes, the State Sector Retirement Savings Scheme, and the Government Superannuation Fund schemes).

38. There is no obvious reason to exclude similar types of saving schemes from any favourable treatment extended to KiwiSaver. Extending similar treatment to non-KiwiSaver schemes would, however, generate substantial revenue costs.

39. Table 2 illustrates the revenue impact of exempting earnings associated with both KiwiSaver and non-KiwiSaver saving schemes:

Table 2: Revenue impact of applying TEE taxation to KiwiSaver and non-KiwiSaver schemes

$ million	2020/21	2021/22	2022/23
Cost of exemption	520	550	570

40. Table 3 illustrates the revenue impact of removing all income tax obligations from KiwiSaver and non-KiwiSaver saving schemes:

Table 3: Revenue impact of removing all income tax obligations from KiwiSaver and non-KiwiSaver saving schemes

$ million	2020/21	2021/22	2022/23
Cost of exemption	3,990	4,240	4,510

[16] This reflects an assumption that the tax on withdrawals will only apply to withdrawals of savings and returns made after 1 April 2020. Most people retiring in the forecast period will likely prefer to withdraw their TTE savings before their EET savings.

41. As with the previous estimates, these estimates do not account for any behavioural responses arising from the policy change. As a result, they will also understate substantially the revenue impacts of the change.

Implications for an extension of capital income taxation

42. Decisions on the tax treatment of KiwiSaver will affect the revenue generated by any extension of capital income taxation. Officials estimate that exempting KiwiSaver will reduce the forecast revenue from a broad-based capital gains tax (as proposed by the Tax Working Group) by approximately $84 million *per annum*.

43. In the time available, officials have not been able to estimate the impact of exempting non-KiwiSaver saving schemes from an extension of capital income taxation.

The Australian retirement income system

44. You have asked for a brief explanation of the Australian approach to taxing retirement savings. The Australian system is complicated. The following description is taken from publicly-available sources and does not go into the more technical rules.

45. As context, the Australian retirement income system has four pillars:

- The means-tested **Age Pension**, provided by the Government, which guarantees a minimum 'safety net' level of income in retirement.
- Compulsory saving through the **Superannuation Guarantee**, which is currently set at 9.5 per cent of wages.
- **Voluntary superannuation savings**, including voluntary pre-tax and post-tax super contributions.
- **Other voluntary savings**, such as housing, other property, and other financial assets.

46. Compulsory saving through the Superannuation Guarantee is intended to supplement or replace the Age Pension. The tax treatment of superannuation is therefore highly concessional, as it is intended to encourage individuals to save more for their retirement – and reduce the fiscal costs of the Age Pension.

The tax treatment of Australian superannuation

47. Australian superannuation money is taxed in three phases: when it goes into a superannuation fund (the contributions phase); while it is in the fund (the earnings phase); and when it leaves the fund (the payout phase).

The contributions phase

48. The amount of tax payable on super contributions depends on the type of contribution and the personal circumstances of the taxpayer.

49. Employer and salary sacrificed super contributions are taxed at 15% when they are received by a super fund.

50. If an individual earns $A37,000 or less, tax paid on super contributions (up to $A500) will be automatically added back into the individual's super account through the 'low income super tax offset.'

51. If an individual's combined income and super contributions exceed $A250,000, the individual will pay 'Division 293' tax. This is an additional 15% tax on the lesser of the taxpayer's concessional contributions or the amount in excess of $A250,000.

52. Additional after-tax personal contributions, and those received under the government's co-contribution scheme, are not taxed when they are put into a super fund.

The earnings phase

53. Income earned in a super fund is taxed at a maximum rate of 15%. Capital gains on assets held for longer than 12 months within the fund will be taxed at 10%.

54. The amount of tax paid by a fund can be reduced by tax deductions or tax credits. For example, a growth fund may only pay an average of 7% tax because its dividend income entitles it to dividend imputation credits.

The payout phase

55. When an individual becomes eligible to access their super, they can take a super income stream to provide them with a regular income, or withdraw all or part of their benefit as a lump sum.

56. Super income streams and withdrawals are usually tax-free for individuals aged over 60. Early withdrawals before the age of 60 are allowed in limited circumstances, and are subject to taxation after exceeding a threshold.

57. When a person dies, their super balance is usually paid to their nominated beneficiary. This is called a 'super death benefit.' Some components of the super death benefit are taxable.

Reflections on the Australian system

Distributional impacts

58. Superannuation provides much larger tax concessions per person to high-income earners. In 2015, over half of the value of superannuation tax breaks – for earnings and contributions combined – flowed to the top 20% of income earners.[17]

Fiscal impacts

59. The fiscal impact of the Australian system is substantial. The cost of superannuation tax concessions was $A42.3 billion in 2017/18. This was 20% of personal income tax collections, which raised $A211.4 billion in that year. The cost of superannuation tax concessions is projected to rise to $A58.8 billion in 2020/21.[18]

60. By way of comparison, the cost of the KiwiSaver tax credit was $830 million in 2017/18. This is 0.3% of New Zealand's source deductions (mainly PAYE on wages and salaries), which raised $30.7 billion in 2017/18.

17 Daley, G., B. Coates and D. Wood (2015). *Super tax targeting*.

18 All revenue estimates are sourced from the Australian Treasury.

61. Superannuation tax concessions are unlikely to be a cost-effective means to reduce the future Age Pension liabilities of the Australian Government. Australian Treasury projections from 2012, for example, show that the lifetime value of tax breaks to high-income men is actually much higher than the value of the Age Pension for low-income earners.[19]

s9(2)(g)(i)

Implications for an extension of capital income taxation

65. There is an important interaction between superannuation and capital gains taxation in Australia. The concessional treatment of superannuation has created a need for an equally concessional treatment of gains from small businesses.[20]

66. This is because the primary way in which many entrepreneurs 'save' for their retirement is by starting and growing their business. Taxing these businesses on a non-concessional basis would favour passive retirement saving over entrepreneurial activity, with broader impacts for growth and productivity.

67. In New Zealand, the absence of generous concessions for retirement saving means there will be less of a case to introduce similar types of small business concessions if there is an extension of capital income taxation.

Next steps

68. Officials are ready to provide further advice at your request on the tax treatment of KiwiSaver and other forms of retirement savings.

19 Australian Treasury (2012). *Distributional analysis of superannuation tax concessions: a paper to the Superannuation Roundtable*.

20 One of the most important concessions for small business is that capital gains from the sale of active assets are exempt up to a lifetime limit of $A500,000.

Appendix: The distributional impacts of the Tax Working Group's proposals for KiwiSaver

On 13 February 2019, you asked officials to provide scenarios outlining the distributional impacts of the Tax Working Group's proposals for KiwiSaver.

Aggregate impacts

Table 1 shows the aggregate cost or gain accruing to all KiwiSaver members across different income bands:

Table 1: Aggregate impacts

$million	Aggregate (cost) / gain across all KiwiSaver members earning…		
	$0-48,000	**$48,000-70,000**	**$70,000+**
Additional tax on KiwiSaver funds from an extension of capital income taxation	**(19.0)**	**(19.0)**	**(46.0)**
a. Refund ESCT for KiwiSavers earning up to $48,000 *per annum*	180.0	96.0	-
b. Offer maximum member tax credit to KiwiSavers on parental leave, regardless of contributions	7.0	2.0	3.0
c. Increase member tax credit from $0.50 for every $1 of contribution to $0.75	227.0	130.0	133.0
d. Reduce the lower PIE rates for KiwiSaver funds by five percentage points each.	70.0	24.0	-

Individual scenarios

Table 2 shows stylised scenarios for savers with three income levels ($48,000 *per annum*, $100,000 *per annum*, and $200,000 *per annum*).

The assumptions are:

- Each saver saves 3% of their pre-tax income into KiwiSaver.
- There is a matching employer contribution, which is subject to employer superannuation contribution tax (except for the ESCT exemption option).
- Status quo PIE and KiwiSaver rules apply, except as varied in the scenarios.
- Every year the balance earns a 5% pre-tax return.

These scenarios are heavily driven by the assumptions, and should be treated with caution.

The savings accumulated under policy options a, c, & d do not add up to the estimated total for all three implementation options. This due to the interplay between the different design considerations.

Table 2: Saving accumulations under different policy options

	Savings accumulated after thirty years for an individual within income of…		
Policy option	**$48,000**	**$100,000**	**$200,000**
Status quo policy settings	$186,553	$299,735	$572,128
a. Refund ESCT for KiwiSavers earning up to $48,000 *per annum*[21]	$201,581	$299,735	$572,128
b. Offer maximum member tax credit to KiwiSavers on parental leave, regardless of contributions	*Difficult to estimate*	*Difficult to estimate*	*Difficult to estimate*
c. Increase member tax credit from $0.50 to $0.75 for every $1 of contribution	$201,472	$313,407	$585,800
d. Reduce the lower PIE rates for KiwiSaver funds by five percentage points each.	$194,960	$299,735	$572,128
Implement options a, c and d	$226,230	$313,407	$585,800

Table 3 shows the dollar increase in savings accumulated under each of the options, relative to status quo policy settings.

As above, the savings accumulated under policy options a, c, & d do not add up to the estimated total for all three implementation options. This due to the interplay between the different design considerations.

Table 3: Dollar increase in savings accumulations relative to status quo policy settings

	Increase in savings accumulated after thirty years for an individual within income of…		
Policy option	**$48,000**	**$100,000**	**$200,000**
a. Refund ESCT for KiwiSavers earning up to $48,000 *per annum*	$15,027	-	-
b. Offer maximum member tax credit to KiwiSavers on parental leave, regardless of contributions	*Difficult to estimate*	*Difficult to estimate*	*Difficult to estimate*
c. Increase member tax credit from $0.50 to $0.75 for every $1 of contribution	$14,919	$13,671	$13,671
d. Reduce the lower PIE rates for KiwiSaver funds by five percentage points each.	$8,407	-	-
Implement options a, c and d	$39,677	$13,671	$13,671

[21] The Tax Working Group noted that the refund could be clawed back for KiwiSavers earning over $48,000. Abating the ESCT refund for higher income individuals would not affect the outcomes for the savers in these scenarios.

Table 4 shows the percentage increase in savings accumulated under each of the options, relative to status quo policy settings.

Table 4: Percentage increase in savings accumulations relative to status quo policy settings

	Increase in savings accumulated after thirty years for an individual within income of…		
Policy option	**$48,000**	**$100,000**	**$200,000**
a. Refund ESCT for KiwiSavers earning up to $48,000 *per annum*	8%	-	-
b. Offer maximum member tax credit to KiwiSavers on parental leave, regardless of contributions	*Difficult to estimate*	*Difficult to estimate*	*Difficult to estimate*
c. Increase member tax credit from $0.50 to $0.75 for every $1 of contribution	8%	5%	2%
d. Reduce the lower PIE rates for KiwiSaver funds by five percentage points each.	5%	-	-
Implement options a, c and d	21%	5%	2%