September 2021

## Corrigendum for TTPI savings report

An error has been pointed out to us[1] in the Marginal Effective Tax Rate (METR) calculated for Concessional Superannuation and Superannuation (Division 293) in the 2020 Tax and Transfer Policy Report into the taxation of savings.[2] This error reduces the estimated METR for both Concessional Superannuation and Superannuation (Division 293) and thereby strengthens the qualitative findings of the report that superannuation is taxed more generously than other savings vehicles.

## Description of error

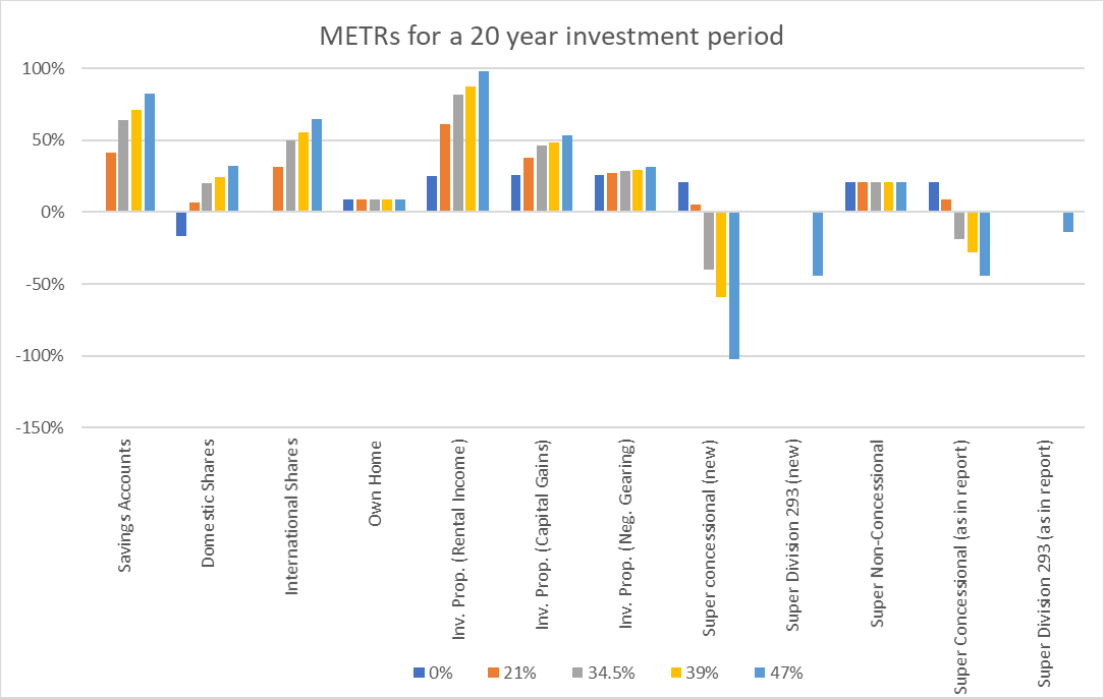
The METR calculations in this report are based on a TEE benchmark, meaning that the baseline scenario is that individuals pay their full rate of personal income tax on the income that they put into superannuation, and then pay zero taxes on any savings after this time. As superannuation contributions pay a concessional rate of personal income tax, a TEE benchmark treats the concessional personal income tax rate as a one-time subsidy.

The calculations in the TTPI report calculate this upfront tax treatment as the difference in personal income tax rate and the tax rate on superannuation. For instance, if someone has a 47% personal income tax rate and pays 15% on superannuation contributions, then there is an effective subsidy of 32%. The METRs in the TTPI report were calculated on the basis that at time zero this individual would have $1.32 for a $1 investment in superannuation.

However, the definition of METRs used in the report is based on the total amount of savings that can be made by forgoing $1 of current consumption. On this basis, a person forgoing $1 of consumption would be able to contribute (1-0.47)*0.85 = $1.60 to their superannuation account. This means that METRs for concessional superannuation and Div 293 superannuation were overestimated in the TTPI report. An adapted version of Figure 1 from the report is presented below that shows both the values from the report and the 'new' calculation.

[1] Thank you to Jonathon Pincus for pointing out the errors in these calculations.

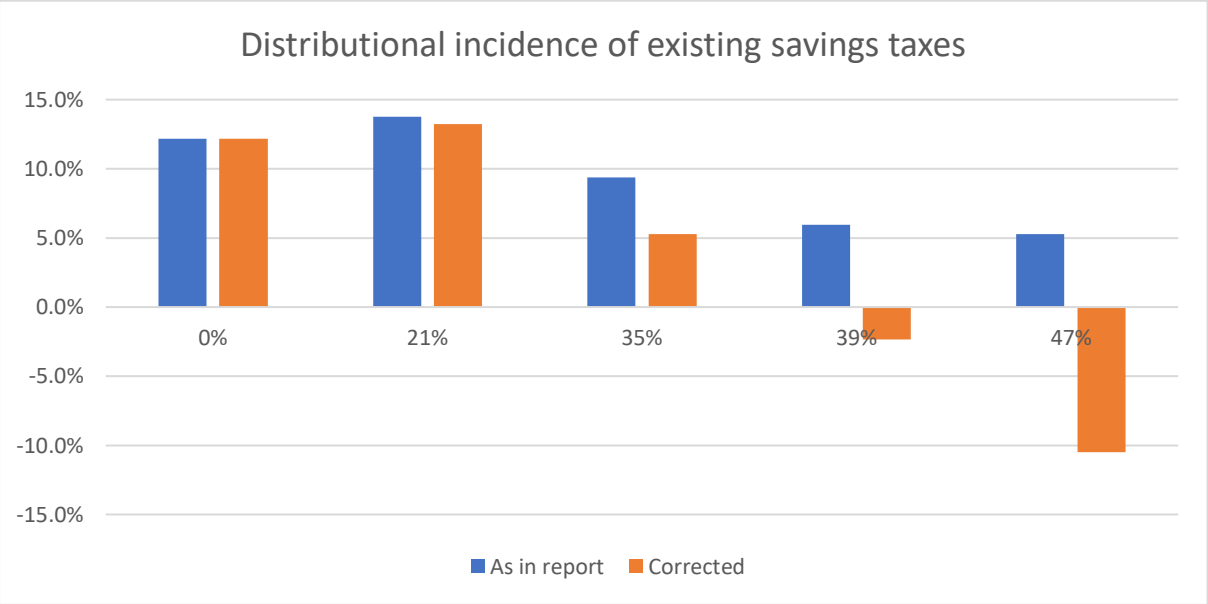
[2] Varela, P., Breunig, R., and Sobeck, K. (2020), The Taxation of savings in Australia: Theory, current practice and future policy directions, Tax and Transfer Policy Institute (TTPI) Policy Report No. 01-2020, Canberra, Australia.




**This correction does not change the qualitative findings of this report**

One of the main findings of the report was that the current tax treatment of superannuation is more generous than would be suggested by tax theory. Indeed, using the old definition, superannuation has the lowest METR for those in the top three tax brackets. This correction to the calculation only strengthens this result.

This correction also strengthens the argument that the existing system of savings taxes is, in aggregate, regressive. This is seen in the chart below, which shows Chart 2 from the report along with updated values.




To accompany this note, we have also provided an METR calculator in the form of an excel spreadsheet downloadable from the TTPI web page (METR Calculator.xlsx). This will assist individuals who wish to replicate or check our calculations.

September 2021

The spreadsheet does not include all information required to reproduce:

- The lock-in calculation (Table 2.4)
- The equivalent flat tax calculation (Table 4.2)
- The METR on super across different ages (Table 4.4)

The authors are happy to provide additional details to interested individuals upon request.