

Research Note

Impact Analysis: Alternative Calculations of Taxation in Superannuation

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About ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers. We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

We unite the superannuation community, supporting our members with research, advocacy, education and collaboration to help Australians enjoy a dignified retirement. We promote effective practice and advocate for efficiency, sustainability and trust in our world-class retirement income system.

Purpose Statement

This document has been prepared by ASFA to underscore the critical importance of thoroughly examining and costing any alternative models proposed for the administration of the Division 296 tax.

Superannuation administration is inherently complex and any changes to the method of calculating tax liability – particularly an alternative to the proposed point-in-time valuation approach – must be assessed both for policy efficacy and for any operational and financial impact on the broader superannuation system.

ASFA's objective is to ensure that the implications of alternative models are fully understood in terms of implementation costs and ongoing administration costs. There is the potential for these costs to be significant and, if not carefully considered, borne by all 17.8 million Australians with a superannuation account, even if not directly affected by the proposed tax.

Efficient, cost-effective administration is essential to safeguarding member outcomes for retirement.

Key Findings

- Calculating the Division 296 tax liability at an individual member level rather than through the method proposed in legislation would require large-scale and complex changes to superannuation administration systems
- These changes could conservatively cost an estimated \$2 billion, based on the implementation of the SuperStream administration changes
- This would translate to \$112 per superannuation account holder, disproportionately impacting the 17.8 million Australians not affected by the tax itself

Overview

Current proposals through the *Better Targeted Superannuation Concessions* legislation involve using a proxy for investment returns based on the difference between the starting and closing account balances for an individual, adjusted by factors such as contributions made and benefits received by the member. This was identified by Treasury as the most administratively feasible way to calculate the tax liability.

During public consultation on the legislation, some alternative methods of calculating tax liability were proposed by some commentators whereby superannuation funds would be required to calculate

taxable investment earnings for each individual fund member using traditional measures of taxable income, including only realised capital gains. These proposals could have unforeseen consequences along with imposing a substantial burden on the superannuation industry for implementation as it would involve developing and maintaining complex new accounting and reporting regime to calculate taxable income at the member level.

In response to Treasury's consultation of April 2023, ASFA noted the importance of minimising the compliance burden that may be imposed on funds – efficient and cost-effective administration of the proposed tax is, in ASFA's view, critical. At present, superannuation funds calculate and report taxable income at the fund level and not at the member level. Calculating taxable income at the member level would likely involve considerable implementation costs. An allocation of a superannuation fund's overall taxable income in proportion to members' balances would also not be feasible, as a single fund can offer a diverse array of investment options and products to its membership, which would carry different shares of the fund's overall income and expenditure. Many members also join or leave a fund at different points of the year and/or exercise investment choice during the year.

In October 2023, ASFA reiterated that the proposed Division 296 tax should be administered as efficiently as possible, to avoid imposing a cost burden on superannuation funds that would indirectly be borne by fund members whose total superannuation balances are below the threshold at which the proposed tax would apply.

It is difficult to be precise about the costs of implementing such a change given the substantial changes to the administration of taxable income calculations for superannuation funds which would be required together with new reporting to the Australian Taxation Office that would be required. Any system change for superannuation funds is costly to both implement and administer on an ongoing basis. Calculating and reporting taxable investment income at the fund member level would involve changes at a scale which is larger than any recent reform to taxation in the superannuation system. As well, compliance costs would be borne across all 23.5 million member accounts held by Australians in large APRA-regulated funds, not just the 80,000 or so account holders across all types of funds with a Total Superannuation Balance exceeding \$3 million.

Should an alternative method of calculating the tax be considered, a conservative assumption of a \$2 billion implementation cost for the superannuation sector has been estimated. The actual total amount could be substantially higher.

This estimate is based on the cost of implementing SuperStream. SuperStream is a system for electronically sending superannuation data and payments. It involved substantial changes to fund administration systems related to reporting and transaction activities. While not directly comparable, the implementation cost of SuperStream was approximately \$2 billion in today's dollars. Arguably calculating realised taxable income at the individual level could involve even greater costs as it would require funds to develop whole new systems to calculate taxable income at the individual fund member level and to report that information to the ATO. It would require substantial redesign of superannuation fund registry systems. For superannuation funds, the registry is critical for understanding members' and employers' transaction information. From payments to insurance and other fees, the registry keeps track of each member's incoming and outgoing funds. Registry systems are custom designed for each fund and substantial changes to them involve large costs for the fund.

It also is likely that ongoing administration costs would be required on the sector due to heightened accounting and reporting requirements. There also would be an increase in the cost of member communications and call centre costs given that funds would be reporting both realised taxable income and allocated investment earnings (generally a higher amount) to members.

The estimated \$2 billion is a cost that would be borne by the 17.8 million Australians with superannuation, the great bulk of which are not impacted by changes to concession levels. This is an implementation cost of \$112 per Australian with superannuation.

Typical existing administration fees estimates are based on \$70 a year plus 0.1 per cent of the account balance. Median balances are as at June 2023 (latest available data).

Tables 1 and 2 below provide estimates of the increase in administration costs at the individual level and the impact of those higher costs on superannuation balance at the time of retirement (assumed to be at age 67).

Impact in the first year of implementation costs of Division 296 taxation under alternative calculation method

Table 1: Estimated increase in administration fees in year one that would flow from an alternative method of assessing tax liability

Age	Median Balance	Existing Admin Fees	New Admin Fees	Percentage Increase	Number of Superannuation Accounts
18-24	\$5,170	\$75	\$187	+149%	2,042,159
25-29	\$19,187	\$89	\$201	+126%	1,829,172
30-34	\$38,525	\$108	\$220	+104%	1,911,170
35-39	\$65,491	\$135	\$247	+83%	1,881,402
40-44	\$93,351	\$163	\$275	+69%	1,742,927
45-49	\$121,924	\$192	\$304	+58%	1,577,609
50-54	\$147,857	\$218	\$330	+51%	1,606,959
55-59	\$169,146	\$239	\$351	+47%	1,412,277

Impact on retirement balances under alternative calculation methods

Table 2: Estimated impact at retirement at age 67 of ongoing higher administration fees as a consequence of adopting an alternative method for calculating tax liability

Age	Impact of ongoing higher admin fee	Impact of initial fee covering implementation cost
21	\$2,800	\$350
27	\$2,250	\$300
32	\$1,960	\$265
37	\$1,500	\$235
42	\$1,200	\$210
47	\$925	\$185
52	\$680	\$165
57	\$450	\$145

