# Superannuation Taxation

## Introduction

I believe there to be many disadvantages with the current Superannuation Guarantee arrangements. These are:

- Lack of actuarial recognition results in gross inefficiency in our national savings;
- Too many super funds and super fund managers results in economic drag;
- Super contributions by low income earners are difficult to justify in preference to making those contributions into savings via the other savings pillar for supporting retirement incomes, the family home;
- Constant bickering by all sections of the income and wealth spectrum of our society as to what tax concessions and contributions are "fair" places pressure on politicians to make changes to super for political purposes;
- Complexity of super rules and legislation and cost of compliance requirements producing economic drag;
- **Constant temptation for governments to tinker with super legislation for revenue purposes. This is exemplified in the current system where contributions are taxed, savings are taxed and there are now calls for super pension incomes to be taxed.**
- Constant temptation for governments to (somehow) use the super pool to fund policy ideas;
- After 22 years of operation, super doesn't seem to have made a significant dent in the number of people getting the pension;
- The intergenerational report predicts that the proportion of retirees receiving any pension is not projected to decline over the next 40 years.

In addition to the above problems, the ratio of workers to retirees is steadily decreasing resulting in an increasing demand on the pension and a decreasing tax base.

## Proposal

The way to turn the "actuarial" disadvantage of Super into an advantage is to fully tax Super withdrawals at the marginal rate (or close to it) at the pension phase whilst contributions and earnings during the savings phase would be tax free.

The objective is therefore not to limit Super savings (as currently suggested by some politicians) but to encourage Super balances unlimited in size.

**In other words, individually held Super balances would, cumulatively, become the "Sovereign Fund" of the nation** from which individual super, aged pensions and tax revenue are all funded from. It's simple and the fairness issue is readily and transparently addressed.

I would allow Super to be drawn at 60 (the money belongs to the Super fund beneficiaries after all), but taxation at marginal rates would act to discourage Super pensions being taken too early.

The taking of lump sums could be considered, but taxation would be at marginal rate for the whole sum withdrawn.

I believe that this is the only Super proposal that ultimately makes any sense and ties in with the general problem of raising taxation revenue for an ageing population. It is what should have been done in 1992 when the Super Guarantee Scheme was first introduced.

## Issues to be Resolved

- Phasing out the current Super Taxation Arrangements;
- How to deal with residual balances of deceased estates. As the state has invested in the encouragement of large Super balances, it is only fair that residual balances be taxed. A death tax, yes, but it will be seen to be fair.
- How does the family house and its capital gains tax free status fit in with my proposal? I believe capital gains tax on a family home discourages mobility, and on that basis alone, the capital gains tax free nature should be maintained. However, the quid pro quo should be that it is taken into account when determining aged pension eligibility. In fact it will need to be done to discourage people placing their entire savings into their house rather than contributing to national savings via Super.
- The raising of additional taxation revenue during the phasing out of the current Super taxation arrangements and the maturation of the proposed Super taxation arrangements.

## Summary

My proposal to tax Super solely at the pension phase is nothing new; many countries do this. What has always bothered me about Super is that, in its current form, “national” savings are not unified; there isn’t a mutually coherent and adequate quid pro quo between the saver and the community at large. I believe that the key is to consider all individual Super Balances as being part of a national Sovereign fund, owned by the individual but with both the individual and the state mutually sharing the benefits.