

30 May 2015

Tax White Paper Task force
The Treasury
Langton Crescent
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To Members of the Task Force

I tried to register on your website to send this submission online but it steadfastly refused to accept me, hence it is in letter form.

Main topic: Self-Managed Superannuation Funds in the \$1-\$2 million bracket and in the Pension Phase.

Reason for submission: The current controversy about superannuation tax concessions

I am driven to make a submission because of the supreme incompetence of most Australian financial journalists in writing about superannuation. On SMSFs the problem is particularly obvious. I have read over thirty assorted articles over the past three weeks and have come to see (a) that most journalists are bewitched by the concept of \$1 million in super. It is seen as a mark of the "wealthy". \$2 million is seen as "very wealthy". From different angles, John Daley (Grattan Institute) and Victoria Thieberger (*Business Spectator*) have been egregiously wrong in their assumptions.

Many accusations have been made that superannuation with attendant tax concessions is being used for the accumulation of large amounts to form part of a large estate. SMSF's seem to be the main target though commentators generally don't understand them at all. The only commentator I would trust is Robert Gottlieb (Eureka Report and *The Australian*) who actually has an SMSF himself.

Then Jeremy Cooper entered the debate and correctly calculated that with \$1 million you might make enough to equal the pension. While most commentators seem to imagine that a superannuant with \$1 million in capital receives a nice tidy annual income of around \$60,000 it not as easy as that. The rules are strict and the process of dividends coming in is intermittent and often the cause of anxiety when markets are volatile.

SMSF's are the most stringently supervised section of the superannuation world. They must have a Trust Deed, legally created and in accordance with current law. They have yearly audits and the Australian Tax Office insists that trustees fully understand that superannuation has a **Sole Purpose: the funding of retirement**. The ATO can ring you up to be questioned about understanding this principle.

SMSF's are governed by tough Drawdown Factors that operate each year and increase every five years. Their purpose is to make sure that the fund is used up as much as possible before death. So in the \$1-\$2 million area, there is not much possibility for anyone to amass a large estate. Whatever is left is then taxed at 15-16% anyway, a point that no commentator seems to know about.

Yet I read statements even by ministers who say that the purpose of superannuation must be better defined. This is also true of David Murray who also has an opinion that the purpose of super needs better definition.

It is tempting to remember that this is the same David Murray who controlled the Commonwealth Bank at a time when it employed many advisers who gave advice to clients seeking to invest in superannuation. That some of its advisers gave very bad advice seems to have been forgotten.

Another former bank director, Carolyn Hewson, has also been quoted about superannuation in a way that shows that directors do not take enough trouble to understand what their institution is selling. In *The Australian* on 6 April she was quoted as saying that superannuation should be included in the tax discussion paper because the system "has become a very effective saving scheme for the rich." I wonder if she thinks that people with \$1 million in super are rich? She compounded her errors by also saying "we have never established an objective for our super system. The tax concessions as they sit at the moment are not suited to achieving the objective of providing for retirement income." She should have asked the Australian Taxation Office which would have explained the concept of Sole Purpose.

But the concessions do achieve that purpose very successfully. As the Drawdown Factors reduce the SMSF capital, the concessions provide a supplement to let the SMSF holder eke out his or her balance for thirty years if they are fortunate. An erratic share market can easily throw a portfolio into chaos.

Another leader who miscalculates is Pauline Vamos. Director of the Association of Superannuation Funds Australia (ASFA). She has been quoted as saying that balances of \$1 or \$2 million are more related to tax planning and estate than for reasonable retirement expenditure needs. She does not know that the rules governing SMSF's with their Drawdown Factors prevent tax planning and finally exhaust capital balances. What is left is taxed at 15-16%.

Alongside SMSF holders are people who also retire with, for example, a lump sum of \$1 million but who through gifts to children and other strategies manage to qualify for at least a part pension and a Seniors Health Card. They are not governed by strict rules as are SMSF's and there are many such people.

The SMSF cohort in the tax system is not as large as is often claimed. As I understand the statistics, there are about \$545,000 SMSF's operating and 88% of them have less than \$2 million. It will be hard work for them to survive for 30 years without financial mishap. Nearly 25% of them are in the \$200,000 to \$500,000 band. The concessions help the great majority of these holders to survive the long and hazardous investment course.

I have noted a calculation by Plato Investment Management that applying a 15% tax at pension phase of an SMSF would reduce retirement earnings by 35%. The statement also says that retirement income will last 10- years less if the Murray taxation observations are implemented. To make it worse, the proposal by the Labor Party to tax earnings over \$75,000 has been accompanied by the threat to include unrealised capital gains in this taxation. This would totally ruin the retirement plans of so many SMSF holders that the whole system might collapse.

The effect of a 15% tax on a Super Fund when it is in the pension phase would eventually be to drive superannuants towards seeking a part-pension. This taxation threat is already forcing some retirees to

conclude that the trouble of setting up an SMSF is not worthwhile. Possible political tampering with superannuation is now a threat to the whole future of super.

Summary:

1. The SMSF area of superannuation is tightly controlled legally and pensioners must adhere to the principle of the Sole Purpose for super.
2. SMSF's are designed to peter out towards the end of life and are not estate planning entities.
3. Income from investments in the \$1-2 million range of capital does not lead to richness and the tax concessions are designed to make it possible for a balance to last until the end of life.
4. SMSF's have a final exit tax of 15-\$16 %.
5. SMSF holders frequently invest in Australian companies that employ fellow Australians. This is for the general good of the country.

These last two points are never mentioned anywhere in all the articles that I have read in the last three months!

A handwritten signature in black ink, appearing to read "Donald Munro". The signature is written in a cursive, flowing style with a prominent initial "D".

(Donald Munro AM)