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SUBMISSION TO THE TAX WHITE PAPER TASKFORCE

REVIEW OF AUSTRALIA'S TAXATION SYSTEM

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Submission to the Tax White Paper Task Force – June 2015

The Superannuated Commonwealth Officers' Association (SCOA) makes the following recommendations:

1) Increase taxation of superannuation funds in the accumulation phase

Increase the rate of taxation of the earnings of superannuation funds in the accumulation phase from 15% to 20%.

2) Provide adequate compensation for any increase in the GST

Most economic commentators agree that GST revenue should be increased, to provide more revenue for the States and Territories, either by increasing the range of services to be covered, while leaving the rate at 10%, or, if the present coverage is retained, by increasing the rate from 10% to 15%, so that inefficient State and Territory taxes such as stamp duty on house purchases can be done away with or greatly reduced. SCOA recommends that fresh food should continue to be GST-free. If the rate of the GST is increased, SCOA recommends that appropriate compensation be provided for age pensioners and other low-income households and Commonwealth superannuation pensioners. For example, if the rate of GST is increased to 15%, then the tax offset should be increased from 10% to 15%. See Questions 51-55.

3) Retain franking credits

Retain franking credits in their present form to prevent double taxation of dividends.

4) Treat "untaxed" defined benefit superannuation funds as a separate head of taxation

Assuming that "taxed" superannuation funds remain untaxed in the pension phase, "untaxed" defined benefit superannuation funds should be treated as a separate head of taxation so that any other income (such as interest from bank accounts held outside the superannuation system) will be taxed "starting from zero" (like the other income of other superannuation pensioners) rather than unfairly taxed at the marginal tax rate, as is the case at present. The present 10% tax offset should be retained, or increased if the rate of GST is increased. See Question 22.

5) Taxation of the earnings of superannuation funds, other than "untaxed" defined benefit funds, in the pension phase

The income earned by these funds should be taxed because most economic commentators believe that the present arrangement is unsustainable, given the expected increase in the proportion of aged people in the population. The Henry Tax Review recommended that these earnings should be taxed at a flat rate of 15%, as was the case before 2006. However, taxpayers would need time to rearrange their affairs, so it would be desirable to start taxing incomes over $40,000 (indexed) at a lower rate, such as 5%, and then increase the rate gradually to 15%. The earnings of the superannuation fund should be reported on the pensioner's income tax form so that they can be treated as part of their taxable income for such purposes as the calculation of the Medicare Levy and for determining eligibility for the Commonwealth Seniors Health Card. This would be fairer than the present arrangement. See Question 22.

6) Stamp duty on house purchases

Stamp duty on house purchases raises a good deal of revenue for State and Territory governments, but it has many disadvantages. It increases the cost of buying a house and forces young couples to put off buying their own home, and it discourages downsizing by older people. Stamp duty should be waived for purchases of low value dwellings by those of age pension age (as in the ACT, where the value of the purchased dwelling may not exceed $500,000) and Victoria.

7) Tax concession for interest on pensioner savings accounts

The present low interest rates, together with the planned increase in the assets test taper rate for the age pension, will encourage people of age pension age to make more risky investments, which might lead to the need for increased expenditure on the age pension in the future. To encourage older people to make conservative investment choices, SCOA suggests that a tax offset of 10% for interest on pensioner savings accounts would be affordable. A similar measure has been in place in the U.K. for many years. It would make life a little easier for those on the age pension, and would help to discourage hoarding of cash. It is difficult to estimate how much this measure would cost, but it would probably be less than $150 million per year. See Questions 14 and 18.

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Appendix

More detailed consideration of recommendations

1) Increase taxation of superannuation funds in the accumulation phase

The “Rethink” paper says that on 31 December 2014, total assets in superannuation funds added up to $1.93 trillion, of which the majority were in the accumulation phase. If one assumes that 70% are in the accumulation phase and that a typical superannuation fund can earn 6% a year, then increasing the tax on earnings in the accumulation phase would save about $4 billion in revenue in the first year of operation. The advantages are as follows:

- Increased revenue of $4 billion;
- Most people with funds in the accumulation phase will not notice the difference;
- It will have little affect on the size of the pension at retirement; and
- It would be easy to do it using existing arrangements.

2) Increase reliance on the GST

Modelling carried out before the introduction of the GST in 2000 showed that if all goods and services were subject to the GST, then the minimum rate required to replace the wholesale sales taxes and the inefficient State and Territory taxes was 10%. It needed to be 8% just to replace the wholesale sales taxes. However, in order to persuade Australian Democrats to pass the GST legislation, the government agreed to exempt fresh food and a range of services from the GST, while keeping the rate of the GST at 10% and also making cuts to personal taxation, with the result that the inefficient State and Territory taxes could not be replaced.

3) Retain franking credits

The offset for franking credits is refundable, which helps investors to minimise their overall tax bill. Even though Australia has had compulsory superannuation for many years, there are still many retirees (mostly female) who have little or no superannuation, holding their retirement savings in the form of shares, bank accounts, fixed deposits, property, etc. Such people might find it more difficult to make ends meet if they lose the benefit of franking credits. It has been suggested that it would not matter if abolition of franking credits led to decreased domestic investment in Australian companies, because it would be replaced by foreign investment. However, that is purely hypothetical.

SCOA believes that most small-scale investors would prefer to invest in Australian companies rather than foreign ones even without dividend imputation, because people prefer to invest in firms that they are familiar with. Dividend imputation may encourage younger investors to put money into shares rather than other forms of investment, but older investors tend to be more conservative and are often reluctant to sell their (usually blue-chip) shares because they do not want to have to pay capital gains tax. See Questions 20 and 25.