



27 January 2019

Senator The Hon. Zed Seselja  
Assistant Minister for Treasury and Finance  
PO Box 6100  
Senate  
Parliament House  
Canberra ACT 2600

## RE: 2019-20 PRE-BUDGET SUBMISSION

Dear Mr Seselja,

I have prepared this submission in response your invitation for public submissions with regard to the 2019-20 Commonwealth Budget.

This submission is prepared based on three areas I am actively involved with.

Firstly, one of my businesses, The Wealth Navigator (<https://www.thewealthnavigator.com.au/>) which is focused on helping ordinary Australians improve the health of their wealth so they can get off the treadmill of working till they drop.

Secondly, I have operated as an outsourced Chief Financial Officer (CFO) for many small and medium businesses including start-ups over the past 20 years (<http://arealcfo.com.au/>).

Thirdly, I am the volunteer director of a Sydney based charity, Independent Living Villages (<http://independentlivingvillages.org.au/>) which builds homes for people with significant functional impairment and/or very high support needs because of their disability.

This submission is focused on what the Federal Government can do towards:

- helping people improve their retirement outcomes;
- providing affordable housing; and,
- ease some of the administrative burden faced by small businesses.

Each of my submissions are detailed in Appendix 1 attached. In summary they are:

1. it's time to remove some of the complexity around the calculation of superannuation guarantee contributions. It would be far simpler that any payment made to the employee which is subject to pay as you go income tax (their gross pay for that pay period) is included in the calculation to determine how much superannuation guarantee contributions are to be made. Irrespective of how the employee earned it. And there is no minimum threshold.
2. If you want to increase the stock of affordable rental accommodation, the Government needs to provide an incentive to the landlord. I propose that this incentive is equal to the GST paid on the new property, rebated over 10 years, providing the property is provided for affordable housing in conjunction with approved community housing providers.



3. In order to reduce the gender superannuation gap, get more engagement in superannuation and better retirement income projections, couples should have the option to place their combined superannuation into a “couples” joint superannuation account.
4. The Workplace Gender Equality Agency (WGEA), is the federal funded agency tasked with improving gender pay equality, but as the data shows, it does not appear to be making any significant inroads. Changes need to be made to both The Workplace Gender Equality Act 2012 and the funding of the WGEA, if any progress is to be made.
5. Currently there is a large incentive for couples to income split to reduce tax. In order to eliminate this, the government should consider developing a tax system that taxes couples as one tax unit.
6. The pension system in Australia was designed as a safety net for Australians financially disadvantaged in retirement. But I believe this is no longer the case. The pension system in Australia has now evolved to a supplementary benefit for those who have not saved enough to be comfortable in retirement. And this bears no relationship with whether the person was financially disadvantaged during their life. For example, a high income earner can spend all their money and get the same pension as a low income worker who never had the chance to properly save for their retirement. In my mind this means that the Australian Pension system rewards spending over saving. And this needs to change.

As noted above, the detailed comments behind each submission above is included in Appendix 1.

If you or anyone else has a question about the submissions, please feel free to contact me by phone on 0412 227 052 or by email at [wayne@thewealthnavigator.com.au](mailto:wayne@thewealthnavigator.com.au)

Yours Sincerely

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### 1.0 It's time to remove some of the complexity around the calculation of Superannuation Guarantee Contributions

Determining how much superannuation guarantee contributions should be paid by an employer in respect of their employees, sounds such a simple calculation.

Isn't it just 9.5 per cent of the employees' wages? How hard could it be to work this out?

And if it's that easy, surely a business who has paid the wrong super must be trying to rip off their staff!

Well the reality is that is not that simple.

There are a number of carve outs in the superannuation legislation which significantly increases the complexity of calculating the correct superannuation guarantee contributions for each employee.

As a chartered accountant for over 30 years and an outsourced chief financial officer (CFO) for many small and medium businesses for 20 of those years, I have seen many business owners innocently pay the wrong superannuation guarantee contributions.

Why?

Because not all business owners have the knowledge, time, or the appropriate systems, to understand how the carve outs impact on their superannuation guarantee obligations.

#### Ordinary Time Earnings

The first carve out that can inadvertently cause an employer to pay the wrong superannuation guarantee contribution is around ordinary time earnings.

For most workers, the employee is obligated to pay 9.5 per cent of the workers ordinary time earnings (OTE). Which is not their total earnings. OTE refers to the amount the employee earns for their ordinary hours of work.

Now you may say that working out someone's ordinary hours of work is simple. Well it is not!

Let's take the example of Sally who runs several retail shops across Australia with her head office in Sydney. On Sunday, she employees two casuals. First is Mark who works in one of the retail stores. The second is Ayla who works in head office doing accounts work.

Any hours worked on the Sunday between 9am and 6pm are considered to be ordinary hours for Mark who is employed under the *General Retail Industry Award*. But for Ayla, who should be employed under the *Clerks – Private Sector Award*, any hours worked on a Sunday are not considered to be ordinary hours (as decided by the High Court).

Let's look at the example of Carlos who runs a smash repair business. Josephine in the office works an hour of overtime about twice a month. But Manny in the workshop regularly works an hour of about every second day.



Typically overtime hours are not treated as ordinary hours. But as Bluescope Steel found out in the Federal Court, that is not always the case. If the employees' overtime, becomes so regular and normal, these overtime hours could become 'ordinary hours' of work. So how does Carlos determine whether Josephine or Manny's overtime has become normal and included as ordinary hours of work?

And there are lots more examples that cause confusion with the employer and employee.

### **The \$450 monthly income threshold**

The second carve out that can inadvertently cause an employer to pay the wrong superannuation guarantee contribution is around the \$450 monthly income threshold. Under this threshold, if you earn less than \$450 a month, the employer has no obligation to pay the 9.5 per cent superannuation guarantee contribution on these earnings.

Now if you are paid monthly, then this threshold is not a problem.

But what if you are not paid monthly.

Let's take the example of Riya who earns \$100 a week. For most months there is four weekly pay runs so Riya is not entitled to any superannuation. But in some months, there are five weekly pay runs. And in those months Riya is entitled to superannuation. For the first four pay periods Riya is not yet entitled to any superannuation. In the last pay period, Riya is now entitled to superannuation, but not 9.5 per cent of \$100, but 9.5 per cent of \$500.

How many business owners would get this correct? And how many employees would know if they got the right superannuation?

Now I understand that this threshold was introduced back when business wrote cheques to pay superannuation (often one cheque per employee) and this was to reduce the administrative burden of writing a lot off small cheques. But today it is all electronic and it takes no more effort to make a \$2,000 payment than an extra \$20 payment.

### **Eliminate the Confusion – Remove the Carve outs**

These carve outs cause confusion. The various court decisions on superannuation guarantee contributions cause confusion as the employer does not know if they apply to them.

And as a result, as I have seen many times, neither the employer or employee know the correct amount of superannuation guarantee contribution for each pay period.

Hence why I say it's time to remove some of the complexity around the calculation of superannuation guarantee contributions. It would be far simpler that any payment made to the employee which is subject to pay as you go income tax (their gross pay for that pay period) is included in the calculation to determine how much superannuation guarantee contributions are to be made. Irrespective of how the employee earned it. And there is no minimum threshold.

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If the gross pay for the employee was \$500 that week, irrespective of what makes up that pay, the employee's superannuation guarantee contribution is \$47.50 for that week.

If the gross pay for the employee was \$4,000 that month, irrespective of what makes up that pay, the employee's superannuation guarantee contribution is \$380 for that month.

This would make it simpler for employers as there is no need to double check how each payment is classified. They could also double check their superannuation obligations quickly by ensuring it is 9.5 per cent of gross payroll payments.

And it is simpler for employees. The superannuation on their pay slip should just be 9.5 per cent of their gross pay. If not – they know the employer has made a mistake and they can challenge this.

### 2.0 Creating more affordable rental housing

To encourage the construction of new affordable housing, the government needs to provide an incentive for the landlord to offer properties at below market rent.

Previous Government policies under the National Rental Affordability Scheme (NRAS) had a fixed dollar incentive irrespective of property location, size or cost. But this incentivises investors to gravitate to lower cost properties in lower cost locations. This does not deliver the right property in the right location, for example housing in Sydney.

To stop this, it is my view that the incentive should relate to the property itself. For example, a \$750,000 house in Sydney should get a higher rebate than a \$395,000 one-bedroom apartment in Adelaide.

And I feel the logical way to determine the rebate is to tie this to the amount of GST paid on each new property. For the \$750,000 Sydney house, there is \$68,182 in GST paid by the purchaser. On the \$395,000 one-bedroom apartment in Adelaide, there is \$35,910 in GST paid by the purchaser.

For the \$750,000 Sydney home, I propose that the rebate would be \$68,182 spread over 10 years at \$6,818.20 per annum. For the one-bedroom apartment in Adelaide, I propose that the rebate would be \$35,910 spread over 10 years at \$3,591 per annum.

In effect, the investor gets a GST rebate for renting the property as affordable housing.

To document the GST, every new property constructed gets a GST certificate stating date of completion, sale price and amount of GST in the sale price. Irrespective of the developer / builder.

#### **Finding the appropriate tenant**

Now the second part of providing affordable housing is to find appropriate tenants. And this is where I believe it makes sense to use the skills and experience of community housing providers.

If the landlord wants to offer the housing at a below market rate, they approach approved community housing providers (who are not associated with the developer / builder). These housing providers vet the potential tenant to confirm they are qualified to rent at the agreed below market rate (say 80% of market rent). The housing provider gives a certificate confirming this and receives a one-off fee for this. This is a bit like the let fee most landlords pay their property manager for each new tenant.

The landlord rents the property at the below market rent to the tenant. If the tenant leaves, the landlord approaches the community housing provider again.

At tax time, the landlord signs off that they have:

- rented to an approved tenant at the agreed market rent.
- the certificate(s) from the community housing provider.

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The landlord then claims each year a rebate of 1/10 of the GST detailed in the GST certificate (assuming the property is rented for a full year). They can claim this for the first 10 years only.

If the tenant stays more than say two years, the landlord has the community housing provider re-confirm that the tenant is still eligible for the below market rent.

If the landlord sells the property, the GST certificate and the eligibility to claim the tax rebate goes to the new owner, providing they rent the property to approved tenants at the agreed below market rate.

### **The benefits of this proposal**

The benefits of this proposed Affordable Rental Housing Plan include:

- the value of the rebate relates to the value of the housing;
- tenants for the affordable housing are vetted by approved community housing providers.
- Stops developers over pricing property as they do not know if the property will be used for affordable housing.
- Community Housing providers get access to properties without having to incur the construction costs.
- People get access to affordable housing.
- Landlords now have an incentive to rent below market

And the maximum cost of this is just effectively refunding the GST paid on the property in the first place.

PS I will declare that I am a director of a Registered Community Housing Provider

### 3.0 Create a “couples” joint superannuation account

In the 2015-2016 year, the gender superannuation gap meant, women on average, had 61.2 percent of the of the average superannuation balance for men (1). This gender superannuation gap needs to close.

And one way to do this is to create a “couples” joint superannuation account.

#### **Current “Couples” Money Sharing Status**

Recent research by Finder has found that 51 per cent Baby Boomer couples pool the family finances and hold their savings in a joint bank account. And the family’s largest asset, the family home is generally held in both partners names.

When it comes time to access superannuation, do you think that will change?

Can you imagine the person with the lower superannuation (unfortunately generally the woman), agreeing to live of their own superannuation! The chances of that happening for many couples would be very slim.

And the pension payment is based on your marital status. A married couple have no choice but to share the pension. Nor do they get double the pension of a single person, because there is recognition of shared living expenses.

#### **We need to give the over 9 million married people in Australia, the option to pool their superannuation**

If a high proportion of married couples pool their finances, why don’t we build a superannuation system that caters for this.

To do this, we need to create joint spousal superannuation accounts where each partner has a 50 / 50 share of the balance. Couples then have the option to place their superannuation in these joint superannuation accounts, just like they have the option with the rest of their finances.

#### **The benefits of providing the option of a joint spousal superannuation account**

The benefits include:

- Projected retirement outcomes become more accurate as they can use the combined superannuation balances to project a combined balance and combined potential income stream at retirement. Which is what most couples want. They don’t want to have to work this out from the separate superannuation plans.
- Engagement with super will increase. With a joint spousal superannuation account, the chief financial officer of the family would be engaged for both partners. Under the current environment, one partner may not be engaged with their superannuation.
- Closing the gender superannuation gap for that couple as they share the balance 50 / 50.
- A reduction in the number of superannuation accounts saving costs for both the superannuation provider and the couple.

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Now the downside to this is that there may be some complications of how to work out access to money if one person has not reached preservation age. But I am sure these can be worked out.

And it will not hinder the split of assets at a divorce as often part of the superannuation balance of one partner is transferred to another partner as part of the divorce. In this case, the joint spousal superannuation account would be closed and single accounts opened.

(1) The Association of Superannuation Funds Australia (ASFA), Superannuation Account Balances by Age and Gender. October 2017

### 4.0 Increased Workplace Gender Equality Agency (WGEA) Funding

Women's full-time wages as a percentage of men's full time wages, has risen marginally from 82.4 per cent in November 2012 to 84.7 per cent in November 2017 (1).

The Workplace Gender Equality Agency (WGEA), is the federal funded agency tasked with improving gender pay equality, but it as the above data shows, it does not appear to be making any significant inroads.

Changes need to be made to both The Workplace Gender Equality Act 2012 and the funding of the WGEA, if any progress is to be made. These changes include:

**a) WGEA needs to expand its data collection to more organisations.**

Currently the WGEA only has power to ensure that non-public sector organisations of over 100 staff submit their data. Why are public sector organisations excluded from this?

**b) WGEA needs to more enforcement powers**

WGEA only has power to ensure that non-public sector organisations of over 500 staff have a formal policy or formal strategy in place that specifically supports gender equality in the workforce.

An organisation can report significant gender pay gaps and as long as it has a policy in place to potentially close these, WGEA can do very little.

The WGEA needs powers to force organisations that have a large gender pay gaps to commence positive action to beat those gaps. The best way to do this would be to set a gender gap benchmark rate. Possibly set this at 20 per cent gap between earnings of full time workers to start with. This benchmark can be reduced over time.

And for any organisation whose gender pay gap exceeds that benchmark, WGEA has the power to force that organisation to start taking positive action to reduce that gap.

And if after say 2 years, the organisation has not reduced their gender pay gap to below the then current benchmark, the organisation is named and shamed. That's right, the same way we publish a list of food outlets who have not meet food safety standards, WGEA publish a list of organisations that have not met the gender pay gap metrics.

Smart organisations wanting to attract and retain key staff will not want to be on that list.

**c) WGEA needs to create industry working groups**

Looking at the gender pay gap for women working full time in Australia, there are already some industries, such as the Public Administration and Safety and Retail Trade Industries where the gender pay gap is around 7 to 8 per cent. These industries seem to have achieved a lot in closing the gender pay gap.

There are other industries where the gender pay gap for full time employed women is over 20 per cent.

We don't need to implement a national policy framework to achieve gender pay equity like the Senate Finance and Public Administration References Committee recommended in its report "Gender segregation in the workplace and its impact on women's economic equality" released in June 2017.

Instead we can get better results if the WGEA has the powers and resources to have industry working groups focusing on the biggest industries that are currently below the average gender pay gap.

This allows industry specific policy and action plans to be implemented to beat the unique challenges of the gender pay gap in that industry.

For example, the biggest employer of full-time workers currently is the construction industry. But 94 per cent of these workers are male. Issues here include how to get more women involved in the industry.

Another example is in the increasingly important disciplines of Science, Technology, Engineering and Mathematics (STEM). Currently there are action plans to drive increased female participation in the STEM industries. But these plans may be of no use, as women continue to plan to leave this industry as a result of gender biases. Instead of new training plans the issue is probably how to get women to remain in the industry.

I would recommend that the first sub committees are focused on the biggest industries where the gender pay gap is below the industry wide average. This would include:

Industry	Gender pay gap for women employed full-time	% of the full-time female work force	% of the full-time work force
Construction	20.2%	1.97%	11.65%
Financial and Insurance Services	26.1%	4.96%	4.08%
Health Care and Social Assistance	22.8%	21.89%	11.00%
Professional, Scientific and Technical Services	22.6%	9.36%	9.27%
Transport, Postal and Warehousing	17.9%	3.08%	6.12%
Total full time workforce		41.26%	42.12%

Source: Authors Analysis of Australian Bureau of Statistics, 6302.0 Average Weekly Earnings, Australia, November 2017 Issued Feb 2018 and 6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, November 2017 Issued December 2017

Women will benefit sooner, as industry wide solutions can be delivered quicker and more effectively. And as we learn from closing the gender pay gap in these industries, we can then apply it to other industries, as applicable.

- (1) Australian Bureau of Statistics, 6302.0 Average Weekly Earnings, Australia, November 2017 Issued February 2018



### 5.0 Tax couples as couples to eliminate income splitting issues

Currently there is a large incentive for couples to income split to reduce tax.

For example a couple who each earn \$90,000 per year, pay \$45,552 in tax. A couple who one partner earns \$150,000 and the other \$30,000 pay \$48,984 in tax. That is an extra \$3,432 in tax on the same gross income.

That is why there is a whole industry around income splitting. An example of this is negatively geared property where typically 99% of the ownership is with the taxpayer with the highest income so they get the biggest tax break.

In order to eliminate this, the government should consider *developing a tax system that taxes couples as one tax unit*. In simple terms this would reduce the cost of negative gearing without changing any of the other rules.



### 6.0 Why does our pension system reward spending and not saving?

The pension system in Australia was designed as a safety net for Australians financially disadvantaged in retirement.

But I believe this is no longer the case. The pension system in Australia has now evolved to a supplementary benefit for those who have not saved enough to be comfortable in retirement.

And this bears no relationship with whether the person was financially disadvantaged during their life. For example, a high income earner can spend all their money and get the same pension as a low income worker who never had the chance to properly save for their retirement.

In my mind this means that the Australian Pension system rewards spending over saving.

#### **Let's meet Dennis, Jeff and Lennie**

If you don't believe me, let's look at Dennis, Jeff and Lennie. Three blokes who met at university in Sydney in the early 1970's when they were studying engineering.

After university all three had very similar careers and generally all three men earned about the same amount of money each year.

Each of them married and had children of similar ages. In terms of their partners income, there was no significant difference in their pay, even though they worked in different jobs.

For over 40 years, their income patterns were very similar.

But when it came the pension, only Dennis and Lennie qualified.

Jeff failed the assets test and was ineligible for the pension.

But what set Dennis and Lennie apart from Jeff? Why, when all three had very similar incomes over their working lives, could Dennis and Lennie qualify for the pension, but Jeff could not?

The only difference was their spending habits.

#### **Let's have a look at the spending habits of Dennis, Jeff and Lennie.**

##### ***Dennis***

Dennis and his wife were into snow skiing. And they soon tired of Australian ski fields and spent a lot of time and money skiing in New Zealand, Europe and North America. They would spend most Christmas holidays somewhere in the Northern Hemisphere skiing. On top of that they loved their toys. They had a new car every couple of years.

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They had the jet skis, the dirt bikes, the big televisions in every room. You name it they had it.

Dennis and his family spent most of their money after the mortgage and other living expenses on toys and travel. In fact, they spend more than they earned so when they stopped working, they had credit card debts of \$40,000 and still owed \$200,000 on their home as they kept increasing their home loan every 5 or so years.

After cashing in their super balance of \$425,000, and paying off this debt, they had their house (worth about \$800,000 in Western Sydney) and less than \$200,000 in super. Based on this, they were eligible for the pension.

### *Lennie*

Lennie and his wife were more into a big McMansion. With the triple garage, swimming pool, media room etc. And instead of living in Western Sydney they lived on the northern beaches of Sydney in a much more expensive house. Their mortgage took up a large chunk of their incomes. And on top of this the kids went to expensive private schools.

By the time they wanted to retire, they still owed over \$400,000 on their mortgage and needed all of their super to pay this off. After paying this off, they had their house (worth about \$1.6 million) and very little cash left. Based on this, they too qualified for the pension.

### *Jeff*

Now let's look at Jeff. Jeff and his family lived simply in western suburbs of Sydney, just around the corner from Dennis. They often had camping holidays in Australia and the kids went to the local public schools. Instead of spending money on toys like Dennis, or on a big house and private school fees like Lennie, they bought a positively geared investment property and worked hard to pay off the debt.

When Jeff and his wife retired, they had, on top of their home worth \$800,000, about \$425,000 in super and an investment property worth \$750,000. And because of this, they did not qualify for the pension

### **What was the difference?**

The only real difference between getting the pension for Dennis and Lennie and Jeff not getting the pension was their spending habits, not their income.

Right now, we have a pension means test that rewards spending, not saving.

A high income earner like Dennis and Lennie, can spend all their money and get the same pension as a low income worker who never had the chance to properly save for their retirement.

Hence why I say, the pension system in Australia has now evolved to a supplementary benefit for those who have not saved enough to be comfortable in retirement, which

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bears no relationship with whether the person was financially disadvantaged during their life.

Is that a fair system?

No.

### **What is the alternative?**

It is time to start to have a means test that focuses on getting people to save for their own retirement.

And whilst I am no policy expert or behavioural economist, the only way I can see that we can develop a fairer means test is to base access to the pension on your earnings pre-retirement.

For example, if your average income for say the last 10 years before applying for the pension, was below the current pension rate, you are entitled to 100% of the pension.

For every dollar of average income above the base pension, you start to lose entitlement to the pension.

And as a safety net, there is a review board, (similar to where people ask for early access to their super) to consider people who have experienced hardship and whether they should get access to the pension.

Maybe this type of pension means test will start to “nudge” people to focus on saving for their own retirement, rather than spending so they get the pension.