



TAX FORUM

4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

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ORGANISATION

Abacus Australian Mutuals is the industry association for Australia's credit unions, mutual building societies, mutual banks and friendly societies. Collectively our members meet the banking and financial needs of nearly 6 million members across Australia.

STATEMENT OF PRIORITIES

Abacus represents two distinct groups of institutions:

- Customer-owned banking institutions;
- Friendly societies.

Abacus and its members support tax reform that provides stability for businesses in the financial services sector whilst also providing opportunities for individuals to attain financial independence. Abacus supports tax reform that drive equity between investment decisions and that provide opportunities for individuals to make savings and investment decisions that support all the life events faced by individuals and their families.

Abacus has two main priorities for taxation reform which essentially revolve around the resetting of taxation incentives for savings by individuals and their families.

Currently the incentives for investment in superannuation in the form of preferential taxation treatment are leading to superannuation being the prime form of savings for most Australian households. Whilst longer term savings are to be encouraged, the sole focus of taxation incentives on superannuation means family savings are only being generated for one life event – retirement – with no or little incentives being provided for other medium to longer term savings goals including education, health, and buying a home.

We attach for the consideration of the Tax Forum and its attendees a paper recently commissioned released by Professor Kevin Davis and Professor Deborah Ralston from the Australian Centre for Financial Studies entitled *Private Savings: The Role of Life Event Products*. This paper outlines the impact of incentives on investment choice and the impact on savings behaviour by individuals.

Abacus and its members believe there is a strong case for reconfiguring the taxation incentives for medium to long term savings vehicle to more adequately allow for more choice and diversity in investment vehicles, including life insurance bonds.



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Abacus also believes more reform is required to encourage savings in the form of household deposits. Encouraging savings behaviour is important in helping individuals and families to establish their financial independence, which in turn leads to less reliance on social welfare spending in the longer term.

Deposits are a critical funding tool for Australia's Authorised Deposit-taking Institutions (ADIs) – these include credit unions, building societies and banks. Currently deposits have very high effective taxation rates, a fact acknowledged in the Henry report and which the Government has commenced to address through limited taxation concessions for depositors.

Abacus also attaches a copy of a paper completed by the South Australian Centre for Economic Studies which clearly demonstrates the excessive effective taxation rates on savings with ADIs. Abacus believes further reforms are required to ensure that there are sufficient incentives for Australians to save and hold those funds in Australian ADIs.

Encouraging savings in this way:

- Provides further stability for the strong Australian banking system;
- Encourages shorter term savings and financial independence;
- Redresses the inequitable treatment of the simplest savings product available to most Australians.

How are your proposals financed over the short and longer term?

Abacus endorses a careful approach to taxation reform that balances short term costs and longer term savings on social welfare expenditure. We encourage Government to take reasonable steps to encourage a savings culture for short, medium and longer term life events.

Abacus has not attempted to complete the necessary financial modelling for the proposals outlined above and in the attached papers, but the approaches are structured to assist individuals and families gain better control of their financial independence which naturally leads to less long term Government expenditure due to reduced reliance on social welfare and safety net mechanisms.

LIST OF ATTACHMENTS

- *Private Savings: The Role of Life Event Products*, Professors Kevin Davis and Deborah Ralston, Australian Centre for Financial Studies, 2011
- *Interest Earnings and ADI Deposits and Australia's Tax and Transfer System*, Associate Professor Owen Covick, SA Centre for Economic Studies, October 2008