Mercer (Australia) Pty Ltd
ABN 32 005 315 917
Collins Square
727 Collins Street Melbourne VIC 3008
GPO Box 9946 Melbourne VIC 3001
61 3 9623 5464
Fax +61 3 8640 0800
david.knox@mercer.com
www.mercer.com.au

Manager
Resource Tax Unit
Indirect, Philanthropy and Resource Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: MRRTRepeal@treasury.gov.au

31 October 2013

Subject: ***Minerals Resource Rent Tax Repeal and Other Measures Bill 2013***

Dear Sir/Madam

Thank you for the opportunity to comment on this Bill. We have restricted our comments to the superannuation aspects i.e. the proposed re-phasing of the Superannuation Guarantee (SG) charge percentage increases and the repeal of the Low Income Superannuation Contribution (LISC).

Executive Summary

Mercer does not support the deferral of the SG increases although we acknowledge a deferral is much more acceptable than a full repeal of the increases. Nevertheless, if it proceeds, the deferral will:

- Reduce retirement incomes for future retirees
- Increase pressure on the cost of the Government age pension in future years
- Reduce consumer confidence in the superannuation system
- Result in potential practical difficulties for employers, particularly if the proposed legislation is not passed by both Houses of Parliament before 31 March 2014
- Potentially result in industrial action by employees who consider they have been disadvantaged by accepting lower salary increases determined after taking the already legislated SG increases into account

Recommendation:

The deferral of the SG increases should not proceed. However if it does, then the deferral should commence from 1 July 2015 to reduce practical difficulties for employers.

Mercer does not support the repeal of the LISC. If it proceeds the deferral will:

- Reintroduce a major inequity in the superannuation system for many low income earners, with superannuation again becoming less tax effective than salary, wages and many other forms of investment
- Have the greatest impact on those who are most in need of support (low income earners) and so disproportionately affect women (who are more likely than men to be in the low income bracket)

- Reduce consumer confidence in the superannuation system. This will be of particular concern in relation to younger Australians joining the workforce with many joining a superannuation fund for the first time only to find it has adverse tax implications
- Apply retrospectively with the removal adversely impacting on the LISC which has already "accrued" in respect of contributions made since 30 June 2013

Recommendation:

The repeal of the LISC should not proceed. However if it does, then the repeal should only apply to contributions from 1 July 2014 (or from the 1 July after passage) in order to avoid adverse retrospective changes. Item 9 of Schedule 7 should also be reconsidered.

We elaborate further on these points below:

1. Re-phasing of the SG charge percentage increase

Mercer is very supportive of increasing the SG from 9 to 12 per cent. The increase in the SG to 12 per cent will result in a reduction in the cost of providing the age pension and increase the sustainability of Australia's retirement income system. At the same time, the increases will provide higher retirement incomes and promote confidence in the superannuation system

Therefore we strongly oppose the proposed pausing of the SG charge percentage at 9.25 per cent from 1 July 2014 to 30 June 2016 although clearly a deferral is preferable to a repeal of the currently legislated increases.

We believe increasing the SG is a critical step towards the goal of providing an adequate and sustainable retirement income for all Australians. Delaying the increase could bring short-term savings to the Budget, however we do not believe it is appropriate policy as delaying or decreasing superannuation savings will increase pressure on the cost of the Government age pension in future years.

Although only a deferral rather than repeal, any such deferral will be seen by Australians as a plan to use their retirement savings to plug budgetary short-falls. This will diminish consumer confidence in the superannuation system. We also expect many Australians will lose faith in the Government's commitment to future legislated increases in the SG, believing these increases will be further deferred or repealed.

Practical issues for employers

The level of SG impacts every employer in Australia. Any change to the proposed rate will require each employer to modify their payroll systems to ensure the correct SG rate is paid. We expect many payroll systems will already have been amended to incorporate the 9.5% rate from 1 July 2014.

Further, the level of SG impacts each employer's remuneration policy. Superannuation costs needs to be taken into account when determining remuneration levels and for budgeting purposes. It is therefore important for employers to know their superannuation commitments well in advance. Generally, for proper planning, budgeting and implementation, the SG rate should be known at least 12 months before the start of each financial year.

In other words, if the SG charge percentage is to be paused at 9.25 percent for two years commencing 1 July 2014, then this should have been enshrined in legislation no later than 30 June 2013. Obviously this is not possible however employers still need to be given a reasonable period of notice. As an absolute minimum, we consider employers need at least a period of three months between the passage of any legislation through both Houses of Parliament and the effective date of the pause. Hence, if the legislation is not passed by 31 March 2014, the pause should be deferred until 1 July 2015 with a 9.5% rate applicable from 1 July 2014 to 30 June 2017. Whist this might alleviate some of the administrative issues for employers, it may not be enough to remove the potential for industrial action by employees/unions seeking compensation through additional salary remuneration.

Recommendation:

The deferral of the SG increases should not proceed. However if it does, then the deferral should commence from 1 July 2015 to reduce practical difficulties for employers

2. Repeal of the LISC

Mercer does not support the removal of the LISC.

The amendments to repeal the LISC will broadly result in the removal of a full offset for contribution tax on SG contributions (at least at the 9% level) for individuals earning up to $37,000.

The LISC currently addresses an inequity whereby low income earners effectively receive very limited or no income tax concessions on their SG contributions – in fact, in many cases, superannuation contributions are taxed more heavily than normal income.

If the LISC is removed, the incentive to save for retirement will be diminished for those who make up the low income earners demographic, particularly part-time and casual employees. These include:

- Women – women are more likely to be in the low income demographic due to the greater likelihood of them working part-time or casually. We note the average superannuation balance for women is already significantly lower than for men and the removal of the LISC is likely to increase the differential between males and females
- Those new to and entering the workforce - many of these will be school leavers or those working part-time to support their studies. They may be joining a superannuation fund for the first time only to find they are paying more tax on their employer's superannuation contributions than they pay on their salary income. This is likely to have an immediate adverse impact on any confidence they may have in relation to superannuation and works against creating a positive attitude to the superannuation system from the beginning of their working life. This may leave a lasting impression which could potentially adversely impact their willingness to use superannuation as a savings vehicle even when their income increases

Removing the LISC for contributions made from 1 July 2013 is effectively an adverse retrospective amendment to existing legislation. Part of the LISC for the 2013-14 year has already "accrued" in respect of contributions already made in the period from 1 July 2013.

Making retrospective amendments is not appropriate policy and will further diminish confidence in the system.

We are also concerned with some of the more technical aspects of this removal. In particular, Item 9 of Schedule 7 of the draft Bill which does not enable LISC payments for the year ending 30 June 2013 to be made after 30 June 2015. We note for low income earners who do not submit a 2012/13 tax return:

- The ATO will need to estimate their eligibility for the LISC and says such payments will start from 1 July 2014
- The ATO will not advise the taxpayer of its estimate but will pay any assessed LISC to the taxpayer's fund, presumably in 2014/15
- Hence the taxpayer will not be advised of the assessed LISC until they receive their fund's annual statement for 2014/15, which will be after 1 July 2015.
- If the ATO has made a mistake resulting in underpayment of an LISC, there would be no ability for the member to apply for the correct amount to be paid

Clearly a longer period needs to be available to enable the ATO to properly consider members' eligibility and process corrections to payments.

Recommendations:

The repeal of the LISC should not proceed. However if it does, then the repeal should only apply to contributions from 1 July 2014 in order to avoid adverse retrospective changes. Item 9 of Schedule 7 should also be reconsidered.

If you have any queries on our comments or would like further information please contact me on (03) 9623 5464.

Yours sincerely,

Dr David Knox
Senior Partner

APPENDIX

WHO IS MERCER?

Mercer is a global consulting leader in talent, health, retirement and investments. Mercer helps clients around the world advance the health, wealth and performance of their most vital asset – their people.

Mercer also provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have $55 billion in funds under administration locally and provide services to over 1.3 million super members and 15,000 private clients. Our own master trust, the Mercer Super Trust, has approximately 260 participating employers, 240,000 members and more than $17 billion in assets under management.