

## Tax Discussion Paper-Comments

Attached are relevant comments(with modified recommendation numbering) re tax and the overall tax system as it goes to sustainability, retirement and superannuation as included in a recent submission to the Financial System Inquiry(FSI).

### **General Issues**

Compulsory superannuation is to protect the masses from a general inability to save. The acceptability of compulsion is arguable for young, family-raising low-income earners. The acceptability of the general “inability to save” proposition is arguable for young first-home buyers.

**Recommendation 1: Consider raising the minimum wage level for SGC generally and for young low-income families.**

**Recommendation 2: Examine first-home buyer investment alternatives to compulsory SGC.**

The primary role of superannuation is retirement benefits to the individual. Funding, economic and product support benefits are of secondary importance although economic risks arising are important.

**Recommendation 3: Leveraged property investment and commercial investment related to the individual are not acceptable in SMSF's.**

**.Recommendation 4: Review the regulatory and tax treatment of annuities and similar products.**

**Recommendation 5: Consider tax, guarantee or protection investment incentives to raise de-accumulation returns as an offset to age-pension system costs.**

The FSI Interim report draws out that imputation credits were introduced to remove the double taxation of equity dividends. The subsequent discussion in the interim report does not justify a conclusion that the argument in support is now less clear. Clearly, the introduction of imputation had the effect of making equities more attractive than previously, and more attractive than off- shore equities. However, it did not introduce a bias against fixed interest, nor is it currently a major issue in the unpopularity of annuities. Imputation does not of itself create a demand for dividends. Dividends that companies decide to pay should be franked where tax has been paid on the profits. The overriding principle is fairness. Policy issues of large rebate payments to SMSF's in allocated pension mode, development of the bond market, de-regulating annuities, or encouraging infrastructure investment should be tackled elsewhere.

**Recommendation 6: Dividend imputation should not be removed.**

SMSF have a number of benefits but the major benefit that is little noticed is that it not only represents engagement but engagement generally over the 4 Pillars. Perhaps the major weakness is that product availability in the post-accumulation stage lacks some conservative products such as unlevered direct

property and easily accessible fixed interest. Note however, that roll back to managed funds for conservative products is available. SMSF's should be encouraged, and not over-regulated.

**Recommendation 7: Consider making the requirement for audit optional for SMSF's.**

**Recommendation 8: Consider increasing the maximum size for SMSF's to encourage family units for greater engagement, education, risk reduction and cost efficiency.**

### **Holistic Review required-Retirement and Fiscal Issues-the highest priority issue**

The Interim report of the FSI in its own release and in various selections of submissions, together with observable practice of individuals and households, enables us to draw out the key elements of the Superannuation/Retirement structure and its budgetary relationship as follows:

Our fiscal position cannot afford the currently projected costs of age pension, health costs etc

Despite a somewhat sanguine outlook from the Committee, the structure is not performing well(See Institute of Actuaries submission).

The original three Pillars(Age Pension, SGC, and Other Savings) had the age-pension as a safety net and SGC as a partly-objective standard for a reasonable retirement, with concessional income tax treatment( albeit after contributions tax paid up-front). The third Pillar of Other Savings(dominated by home ownership) had the major benefit of discounted capital gains and family home exclusion.

The current 4Pillar structure has hugely changed with the extra Pillar of Voluntary Super added within the Superannuation taxation structure and that structure made vastly more generous with no taxation for the allocated pensions structure and no requirement for superannuation balances to have any relationship to reasonable retirement income limits to gain the attractive concessions. There is no logical overall structure to relate the pillars and relate fiscal costs to fair benefits.

The taxation concessions at retirement are extremely generous compared to the age pension.

Only the age-pension Pillar has any objective relationship(as in \$ amount) to a living standard(SGC can be on large salaries and generate a large benefit unrelated to reasonable living standards).

Lump sum retirement payments are allowed without effect on age-pension eligibility.

Taxation concessions for the family home are completely uncapped.

Retired and older aged people are actively dealing with the 4<sup>th</sup> Pillar by downsizing or borrowing in order to integrate their living standard with the aged pension and their total assets.

Defined contribution and SMSF fund management is complex, particularly in the early-mid years of retirement, potentially impacting the fiscal cost of future age-pensions via poor returns from investment decisions and structures.

Fiscal cost is heavily intertwined with policy, regulatory and taxation structures, with the existing tax structure creating bias and incentives in several areas, e.g. housing, leverage etc

The projected unsustainable fiscal situation of retirement costs and current benefit structures requires urgent change, despite the desire to restrict change and avoid more complexity for an already complex system. In addition there is a reasonable case for both increasing the age-pension and removing some low-income earners from SGC. Further, there is a case for increasing the rate of SGC for some mid-level earners who will not otherwise save. However, the standout features in looking for savings and/or fairness are the generosity of concessional benefits, the lack of a reasonableness test for voluntary super contributions(using the system for wealth creation), the allowance of large lump sum benefit payments at retirement, and the exclusion of the family home from any test for the age-pension.

#### **Recommendation 8:**

**A major holistic review be undertaken of the current 4 Pillar retirement structure and its associated taxation structure recognizing the need for fundamental changes to a structure which, while satisfactory and of a high level internationally, needs to address:**

**It's current and projected unsustainable costs**

**The lack of definition or objective relationships between the 4 Pillars**

**The potential need for an increase in the age-pension to cover under-saving by many up-coming retirees for their retirement**

**a linking system between the age-pension and retirement benefits, perhaps an annuitized system like the UK with a part early-payment at retirement**

**superannuation contributions, voluntary or SGC, limited to amounts to generate reasonable retirement income**

**concessional benefits for taxing superannuation income capped for reasonable limits**

**the value of the family home over reasonable limits used to fund age-pension benefits(a deferred ATO liability at death with low-interest and sale protection?)**

