Addressed To:
Retirement Income Review
Treasury

Retirement Income Review

Introduction

This submission is made as an individual. I am a 43 year old male and have worked for 20 continuous years in the workforce. My background is engineering. This submission is made to provide some perspective as a taxpayer.

Key Points

- The Age Pension rate is adequate
- There is no need to increase super to 12% as the age pension was previously adjusted and individuals should determine their own goals and needs.
- The super contribution tax should be Marginal Tax Rate minus 15-20%.
- Voluntary savings need horizontal equity adjustment. This includes the unlimited tax free status of the family home.
- In 2015, a Sydney Morning Herald poll suggested that 80% of 13,604 people surveyed believed the family home should be partly of fully assessed in the assets test.

Discussion

The elephant in the room is housing. Not the age pension or super. Housing is the biggest asset in most people's lifetime, and should be better utilised for retirement income.

Housing tax concessions and non-assessment in the pension test is inequitable and excessive. Falling home ownership for the younger cohort now and into the future may mean the current retirement system is not fit for purpose.

The age pension is adequate but tapering and asset tests drives retiree behaviour to game the system by moving money to non-assessed assets such as the family home. This transfers dependency to the taxpayer. And given the number of pensioners to taxpayers is falling, this needs changing.

Superannuation contributions favour high income earners. This needs changing such that the same tax subsidy is applied to all contributions.

Equity

The family home tax concessions are extremely unfair and excessive. Some home owners (including retirees) are able to earn $1m per year land value increases and pay no tax.

A tax free capital gains threshold should be set on the land value or land and building of the family home. The objective being to target only the top 10-20% of the population or a capital value that most average wage earners could not afford.

A suggested threshold would be the couple's age pension of $36,600 accrued each year in the land value. This is similar to the limits for deductible contributions to super. And reflects a level of poverty that owner occupiers are incentivised to avoid. The scheme would start at a future date, and would avoid retrospectivity of previous capital gains.

Beyond this, home owners should bear the burden of capital gains, similar to other forms of voluntary savings. Revenue from this initiative would help reduce marginal tax rates for savings for retirement for low to middle income earners.

If you want to treat people equally, then tax assets classes equally.

Why ?

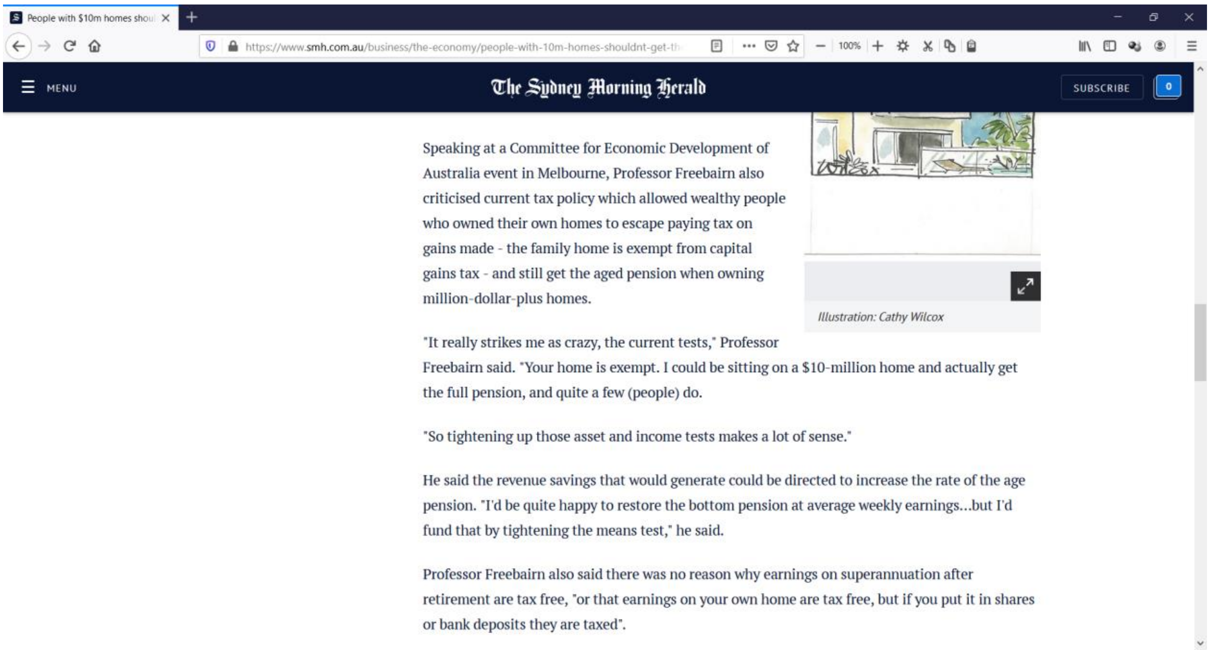
Because low income earners mainly rely on income from productive effort which is taxed at the marginal tax rate. Whereas capital gains on owner occupied land value can be many multiples more than the average wage earners wage with no productive effort and no tax.

There is no denying that housing is a critical element of the voluntary savings component of the retirement system but it is its tax and pension assessment that drives the wrong behaviours and poor efficiency of the retirement income system.

Professor John Freebairn commented about this in an article in the Sydney Morning Herald in 2015. The extract is below. I have kept this for several years as I totally agree with it. The extract is more concise and is better than I could explain.

Here is an extract from the Sydney Morning Herald March 12, 2015.

https://www.smh.com.au/business/the-economy/people-with-10m-homes-shouldnt-get-the-age-pension-says-former-government-adviser-john-freebairn-20150312-1427y1.html



The Sydney Morning Herald

Speaking at a Committee for Economic Development of Australia event in Melbourne, Professor Freebairn also criticised current tax policy which allowed wealthy people who owned their own homes to escape paying tax on gains made - the family home is exempt from capital gains tax - and still get the aged pension when owning million-dollar-plus homes.

Illustration: Cathy Wilcox

"It really strikes me as crazy, the current tests," Professor Freebairn said. "Your home is exempt. I could be sitting on a $10-million home and actually get the full pension, and quite a few (people) do.

"So tightening up those asset and income tests makes a lot of sense."

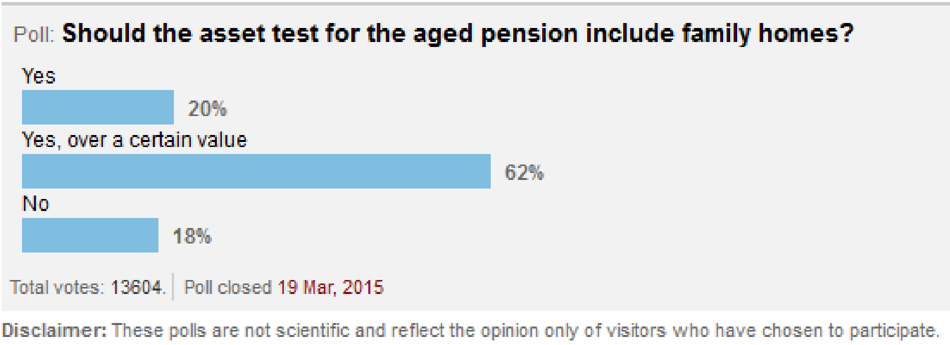
He said the revenue savings that would generate could be directed to increase the rate of the age pension. "I'd be quite happy to restore the bottom pension at average weekly earnings...but I'd fund that by tightening the means test," he said.

Professor Freebairn also said there was no reason why earnings on superannuation after retirement are tax free, "or that earnings on your own home are tax free, but if you put it in shares or bank deposits they are taxed".

In that same article there was a survey about whether the Family home should be included in the pension assets test. The poll in figure 1 shows the most favoured option was “Part” of the value at 62%. With Yes and No both around 20%. Over 13,000 people were polled. The poll has now been removed but I kept a screen copy.

Figure 1 is a poll from the <u>*Sydney Morning Herald*</u> 12/13 March 2015,

Figure 1 – Screenprint of a poll

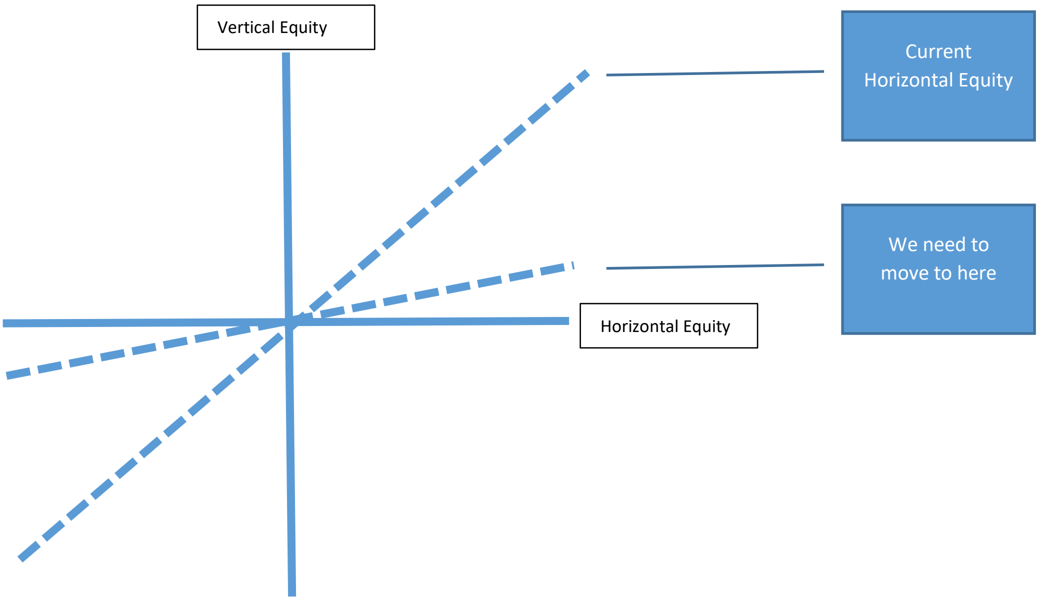


I know most family friends have two lounge rooms or expend their super funds to pay off debt or extend their home in retirement even after their children have left home years before. Many have the behaviour of trying to spend their money to get the pension. It really is an inefficient system.

Overall equity in the tax system (Figure 2) from my point of view is heavily skewed to housing, super contributions, capital gains etc. (bottom left) i.e. Capital. This is where higher net wealth is situated. Whereas those who have very high effective marginal tax rates can be severely taxed with productive effort. This is where the low to medium socio economic status cohort are. I.e. Reliance on income.

To try and improve the position of low and middle income earners, horizontal equity should be flattened by increasing taxes on capital and reducing taxes on income, and with no overall tax increase.

<u>Figure 2 - Equity</u>



The Baby boomer generation have enjoyed high wages growth and falling interest rates from 16% to 4% over the past few decades. This has provided considerable uplift in housing values for no productive effort.

So for the younger cohort, it becomes a quadruple whammy of lower retirement savings because of less uplift in house prices, lower home ownership, lower wages growth so less taxes to support retirees and lower number of taxpayers relative to pensioners.

Owner Occupier v Rent

Non-home owners are provided an additional $210,000 before the assets test impacts their income.

This is extremely low and very unfair on those who have not been lucky in life, especially those who are carers for the disabled and the disabled themselves who rent. Also, there are likely to be more single people in the future with less home ownership entering retirement.

Non Home Owners Assets Test should be substantially increased, so that it reduces the difference between home owners and renters.

Super Contributions

With regard to superannuation, super contributions are inequitable and favour the high income brackets. Contributions should be changed to the Marginal Tax Rate minus 15-20%. This would align all income levels.

Regards

Chris Moore