

Submission to the Retirement Income Review regarding the
Equity of the Superannuation Taxation System

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I am a self-funded retiree who has an interest in the current superannuation taxation system continuing but I think it's appropriate to point out conceptual iniquities in the current system.

The superannuation taxation system continues to be severely lacking in vertical equity. Although the introduction of the "Transfer Balance Caps" in 2017 achieved a lot in addressing this issue, the system continues to be severely lacking in vertical equity. There are two aspects to the lack of vertical equity, (1) the unlimited tax benefit available from superannuation and (2) the very large tax benefit possible from superannuation pensions.

(1) Unlimited superannuation tax benefit

Before the abolition of Reasonable Benefit Limits (RBLs) in 2007, there was an upper limit to tax benefits that could be obtained from superannuation. Now, tax benefits from superannuation are unlimited with unlimited amounts of income only subject to 15% income tax. Previously, RBLs meant that income earned in superannuation funds had to be subject to personal taxation upon withdrawal from superannuation once it exceeded the relevant limit.

This unlimited tax benefit from superannuation is a major failure of vertical equity and is not only a failure of equity but will compromise collection of tax revenue as a larger and larger proportion of Australia's investment income is moved into superannuation as time goes by.

(2) Very large possible tax benefit from superannuation pensions

The other aspect of the superannuation taxation system that is severely lacking in vertical equity is the zero tax rate that is applied to superannuation pensions up to the limit that is attainable under the Transfer Balance Cap (TBC). Under the existing TBC, it is possible to obtain a tax-free pension in excess of \$100,000 per annum in addition to the tax-free threshold available under personal taxation outside of superannuation. This taxation regime is severely lacking in vertical equity compared with personal taxation.

These failures of vertical equity would ideally be addressed by reversing the changes made to superannuation taxation in 2007 (so-called "Simpler Super"). This would be quite straightforward in the case of tax-free pensions as they could easily be returned to the same income tax treatment they had before 2007, i.e. they would form part of personal taxable income with a 15% rebate for contributions and earnings taxes paid in the past.

Recommendation

Restoring the taxability of superannuation pensions as they were before 2007 is such a straightforward change that the government should implement it as soon as possible. Reversing the abolition of RBLs would be much more complex and is beyond the scope of this submission.