Retirement Income Review 2019

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Recommendations

1. Cap superannuation at $2 Million Dollars per person
2. Make superannuation contributions tax free
3. Make superannuation earnings tax free
4. Tax superannuation drawdowns at the marginal tax rate
5. Replace stamp duty with Land Value Tax
6. Include place of residence in the asset test for the aged pension
7. Introduce a HECS style pension loan scheme payable upon death
8. Scrap franking credit cash refunds
9. Inheritance tax
10. Lump sum withdrawal penalties
11. Option to opt out of superannuation

1. Cap superannuation at $2 Million Dollars per person

Australia's superannuation system provides citizens with a tax effective environment that both incentivises and helps people to save enough to fund their own retirement. The goal of the system is to reduce the country's reliance on the pension.

While $2m (or $4m for a couple) might not be enough to enjoy a wealthy retirement or even be classed as 'rich', it is enough to not require the pension. Once a balance of $2m is reached, the favourable tax treatment of those savings has achieved its goal, and its benefits should be limited to that $2m.

People would be welcome, and in fact encouraged, to continue to save outside of the superannuation system, but regular tax rules will apply. Too much of the superannuation tax concessions go to people that will never need to receive the pension. This proposal would even allow the system to become more generous, in order to bring more people up to a level where they will not need to rely on the pension.

2. Make superannuation contributions tax free

All contributions whether compulsory or voluntary at all stages of the superannuation lifecycle should be tax free. This will firstly allow balances to build up quicker and secondly encourage as much additional voluntary contributions as possible.

Tax free contributions will also eliminate the unnecessary complexity surrounding tax and superannuation.

3. Make superannuation earnings tax free

Similar to the previous point, if all earnings within superannuation are free from taxation balances will grow quicker and compliance will be simple.

4. Tax superannuation drawdowns at the marginal tax

Superannuation should not be completely free from tax however and it should be taxed on the way out at the same rate that everyone else pays tax. The same tax free thresholds should apply and the same marginal tax rates should apply.

This would ensure fair contribution to government revenue, and would penalise large lump sum withdrawals designed to allow those that do not require a pension to access a pension.

Any remaining superannuation remaining at the death of the beneficiary should all be drawn down and tax paid at the marginal rate.

5. Replace Stamp Duty with Land Value Tax

Stamp duty is an inefficient means of raising government revenue and has an adverse effect on housing affordability.

Stamp duty is effectively a tax on moving. People need to freely move with as little cost as possible in order to; find better employment, upsize when the family grows, downsize when the family shrinks and just be able to transfer wealth between asset classes efficiently.

This change should be revenue neutral, so other taxes will need to be increased.

Also see recommendation 51 of the 2009 Ken Henry Tax Review

LVT is an efficient means of raising government revenue as land is inelastic in supply. An LVT will help to remove speculators from the property market and ensure land is put to its most efficient use.

This change should be revenue neutral, this will allow other inefficient taxes to be reduced.

Also see recommendations 52 - 54 of the 2009 Ken Henry Tax Review

6. Include place of residence in the asset test for the aged pension

THIS DOES NOT MEAN THAT ANYONE WILL BE FORCED TO SELL THEIR HOUSE!
THIS DOES NOT MEAN THAT ANYONE WILL BE FORCED TO MOVE AWAY FROM THEIR COMMUNITY!

The pension is not an entitlement, in return for a lifetime of contributing taxes. It is a welfare safety-net, funded by today's taxpayer. It is not an income replacement, so you can have the privilege of leaving what you otherwise would have used to fund your retirement, to your kids. It is designed solely to provide for those in the community that have no other means of supporting themselves. And frankly, the aged pension is grossly inadequate, and needs to be urgently increased, but the government is unable to increase it, because too many have access to it, who should not.

The current system allows for an unlimited amount of wealth to be transferred to a place of residence in order for the wealthy to continue to earn a government funded aged pension. This is extremely distorting and unfair.

Reverse mortgages allow retirees to unlock the equity in their homes, in order to provide for themselves without ever needing to move out of their home. Currently those that do wish to move, may be penalised if they decide to sell the family home and downsize to something more suited to their needs. Pensioners should have the option to keep, or sell their residence without adverse financial impact.

7. Introduce a HECS style pension loan scheme payable upon death

Suppose someone receives the pension for 20 years totaling $400,000. Suppose that when they die their estate is worth $1million. Would it not be reasonable that the government recoup $400,000 from the estate? If the estate cannot cover the debt, it is forgiven.

Would you rather pay tax when you are alive, or when you are dead? It is essentially a victimless tax.

8. Scrap franking credit cash refunds

As per Labor's policy.

9. Inheritance tax

10% on estates worth over $10 Million.

10. Lump sum withdrawal penalties

If you withdraw more than $100,000 in a single year, you forfeit any future access to the pension.

It needs to stop where lump sums are withdrawn so people that do not need the pension, receive a pension.

11. Option to opt out of superannuation

You should have the option to opt out of compulsory superannuation if you have the means to provide for yourself. But in doing so, you would have to forfeit your right to any future pension.

Conclusion

Superannuation should be wholly and solely for the purpose of reducing the number of people reliant on the aged pension.

You have no right spending my money, until you have spent all of yours.