

Pre-Budget Submission

2017/18 Federal Budget

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Recommendations:

- Continue Tax White Paper process
- Repeal 'work test' for superannuation contributions
- Index Low Income Superannuation Tax Offset (LISTO) to increases in Super Guarantee rate
- Faster increase to 12% Superannuation Guarantee rate
- Encourage the use of corporate trustees for SMSFs

Thank you for the opportunity to make a submission as part of the 2017/18 Federal Budget process.

This submission makes several recommendations, including continuing with the Tax White Paper process, repealing the so-called 'work test' for superannuation contributions and indexing the LISTO to increases in the Super Guarantee rate.

Continue Tax White Paper process

Many submission ahead of the 2016/17 Budget were limited due to an assumption that the Government was proceeding with the announced Tax White Paper process. Submissions to the Budget process closed on the 5th of February 2016. On the same day the Prime Minister Malcolm Turnbull said: "I think given we're so close to the Budget, the Budget will be, for all practical purposes, the White Paper".

Considerable effort and expense was put into the Tax White Paper process, and it should be continued for the same reasons that it was started. There is a benefit in having a well-considered and consultative process to develop a framework for tax policy.

I recommend the Government continue the Tax White Paper process, with a Green Paper to be released in 2017, based on existing submissions and an additional consultation process to include taxes and topics excluded from the initial discussion paper, ahead of the release of a White Paper in due course.

Repeal 'work test' for superannuation contributions

I urge the Government to proceed with a repeal of the 'work test', which restricts the ability of people aged 65-74 to contribute to superannuation.

Repealing the so-called work test was proposed in the 2016/17 Budget, but dropped as part of the changes to the non-concessional contributions cap.

The 2016/17 Budget papers say repealing the work test would:

“...simplify the superannuation system for older Australians and allow them to increase their retirement savings, especially from sources that may not have been available to them before retirement, including from downsizing their home.”

This reasoning for the repeal of the work test stands and I encourage the Government to include it in the 2017/18 Budget.

Index Low Income Superannuation Tax Offset (LISTO) to increases in Super Guarantee rate

The Low Income Superannuation Tax Offset (LISTO) should be increased and indexed so that it keeps pace with increases to the Superannuation Guarantee rate.

The Explanatory Materials to the *Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016*, which introduced the LISTO, says:

“The low income superannuation tax offset seeks to effectively return the tax paid on concessional contributions by an individual’s superannuation fund...”

However this will not be fully achieved under the LISTO as it is structured. The LISTO is very similar to the Low Income Superannuation Contribution (LISC). When the LISC was introduced it offset the full amount of contributions tax - \$500 - a low income earner would pay on their compulsory Superannuation Guarantee contributions (9% of \$37,000 equals \$3,330, \$3,330 at 15% equals \$499.50).

However provision was not made to increase the LISC when the Superannuation Guarantee (SG) rate increased.

As such, as the SG rate increases, the LISTO fails to offset the full amount of contributions tax, meaning some low income earners will pay more tax on some of their superannuation contributions than they would on their salary and wages.

The LISTO should be indexed to increases in the SG rate, so that it fully offsets the contributions tax on the compulsory employer superannuation contributions for low income earners.

Faster increase to 12% Superannuation Guarantee rate

I urge the Government to reconsider the decision to delay increases to the Superannuation Guarantee (SG) rate beyond what was previously scheduled.

The SG rate was set to reach 12% on 1 July 2019, however it is now not scheduled to reach this level until 1 July 2025.

I urge the Government to reconsider this delay in reaching a 12% SG rate.

Encourage the use of corporate trustees for SMSFs

SMSFs are increasingly being set up with individual trustees rather than corporate trustees. The latest ATO SMSF statistics show that only 7.24% of SMSFs registered in 2015/16 had a corporate trustee.

This is part of a trend away from corporate trustees for SMSFs, which was remarked on by the Super System Review, also known as the Cooper Review. The final report of the Review said:

“The Panel and various stakeholders have expressed their surprise at this trend in various consultations and submissions. It is widely accepted by professionals and the ATO that a corporate trustee is superior.”

Corporate trustees for SMSFs do involve higher setup costs than individual trustees, however they also offer limited liability and require fewer changes upon the death of a member, easier removal and addition of members and clearer ownership of assets.

I recommend the 2017/18 Federal Budget include two measures to encourage the use of corporate trustees for SMSFs. Firstly, though ASIC offers a lower annual fee for special purpose companies, the setup fee remains. This ASIC fee can represent over 90% of the cost of a company, from some providers. Provision should be made in the budget for ASIC to reduce this fee for SMSF trustee special purpose companies.

Secondly, provision should be made for research into why individual trustees are increasingly being chosen for SMSFs. Based on this research an education campaign could be conducted by the ATO.

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I am a CPA with a background in public practice accounting for SMSFs and an interest in superannuation and retirement issues. I write for SolePurposeTest.com, an SMSF and superannuation news site for SMSF trustees and professionals.