



TAX FORUM 4-5 October 2011

STATEMENT OF REFORM PRIORITIES

PARTICIPANT NAME AND POSITION

Andrea Slattery, CEO

ORGANISATION

SMSF Professionals' Association of Australia Ltd (SPAA).

SPAA is the peak professional body representing the self managed superannuation fund (SMSF) sector throughout Australia. SPAA represents professionals, irrespective of their personal membership and professional affiliations, who provide advice to individuals aspiring to higher levels of participation in the management of their superannuation savings. Membership of SPAA is principally accountants, auditors, lawyers, financial planners, actuaries and other professionals.

STATEMENT OF PRIORITIES

Around two or three pages, please. Please address both of these issues:

1. What are your priority reform directions for the tax and transfer system?

SPAA supports the continuation of the three pillar system of retirement savings and notes the strong community support for this system. SPAA believes the government should be guided by the principle that the taxpayer should be encouraged through tax concessions to provide for their own retirement (pillar three) thus reducing the reliance on the age pension (pillar one). The tax concessions afforded to the superannuation sector provides this encouragement and underpins what is widely acknowledged as the most robust retirement income system in the world.

Individuals should be encouraged to save during their working lives to provide resources in their retirement. Measures which unreasonably discourage or impose barriers which prevent individuals from saving for retirement should be removed.

The SMSF sector plays a critical role in encouraging individuals to take control of their retirement savings. The SMSF sector is characterised by taxpayers who largely "look after themselves" and as a consequence, this group of taxpayers is the least likely to look to government for support in retirement. SPAA believes that the review of Australia's Taxation System should recognise this fundamental characteristic and any proposed changes should encourage the community to adopt an approach to savings which decreases reliance on government support in retirement. In addition, any proposed changes should be tested against whether they could act as a disincentive to save.

With this in mind SPAA believes a number of changes should be made to Australia's retirement income system to further encourage voluntary savings via superannuation and ultimately reduce reliance on the age pension. Such measures include:



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Increasing the concessional superannuation contribution cap - SPAA considers that the current taxation system discourages rather than encourages voluntary savings in a number of important areas. SPAA understands the equity argument and the need to ensure the taxation concessions afforded to superannuation are appropriately targeted and as such SPAA supports the use of contributions limits as the primary mechanism for achieving this.

However, in SPAA's view, the current excessively low concessional contribution cap base together with the absence of adequate indexation will deny many thousands of Australians, who typically have a greater financial capacity to save for retirement later in life, the opportunity to do so. Similarly, individuals with broken work patterns and individuals close to retirement with inadequate retirement savings are denied the opportunity of making reasonable catch-up contributions.

In SPAA's view, the decision to reduce the concessional contribution caps in 2009 has had a far greater impact than expected. Contrary to initial Government projections, the reduced concessional contribution cap which has applied since the commencement of the 2009/10 financial year, has had a major impact on the level of concessional contributions across all income ranges and not just on high income earners. It is apparent that contributions levels are not always linked or dependent on the level of income but rather are impacted by lifestyle changes later in life. This observation is supported by research recently conducted by SPAA

SPAA also believes that allowing individuals to access a higher concessional contribution cap on the proviso that their superannuation account balance is less than \$500,000 (as proposed in the 2010 and 2011 Federal Budgets), is likely to impose difficult, onerous and inefficient administration and reporting practices on funds reminiscent of the previous reasonable benefits limit regime.

In SPAA's view the current excessively low concessional contribution cap represents a significant barrier to voluntary savings under the pillar three. Earlier this year SPAA, along with a number of other industry associations, called for the concessional contribution cap to be increased to \$35,000 for all individuals over age 50. This was considered to be a short term measure and was put forward as an alternative to the proposed \$50,000 concessional contribution cap for individuals over age 50 with a superannuation account balance under \$500,000.

SPAA encourages the use of research to validate the level of contributions which achieve the appropriate balance between equity and adequacy. This research should also be used to validate the overall budgetary cost of the three-pillar architecture in terms of the increased reliance on pillar one should the level of the contribution limits remain low.

Excess contributions tax reforms - It is widely acknowledged that certain areas of the excess contributions tax regime are in need of reform. In SPAA's view, the severity of excess contributions tax coupled with limited options for rectification is the most significant issue confronting consumer confidence in the superannuation sector and voluntary superannuation savings under the pillar three. While we acknowledge the need to deter people from making excess contributions, the tax applicable to excess non-concessional contributions is too penal given that the vast majority of excess contributions are made inadvertently.

SPAA notes the latest ATO statistics show that over \$300m in excess contributions tax has been



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collected by the ATO since 1 July 2007. While this tax on retirement savings may represent short term revenue to the Government it also has the less obvious effect of reducing confidence in the superannuation system and discouraging voluntary contributions.

To address these issues, SPAA has proposed that superannuation fund members who exceed their non-concessional contribution cap should have a genuine right of rectification and this rectification should enable members to minimise their excess contributions tax liability. SPAA also believes that taxpayers should be permitted to “opt-out” and not incur excess contributions tax simply because their employers are required to satisfy statutorily imposed SG obligations.

SPAA acknowledges that the Government has begun to address the excess contributions problem by the proposed introduction of the \$10,000 excess concessional contribution system. However, SPAA believes this refund measure falls well short of a working solution and simply does not address the broader issues associated with the severity and manner in which this tax is imposed.

Removing disincentives for individuals over age 65 – SPAA believes the superannuation work test rule for individuals over 65 should be removed. This would have the effect of allowing individuals over age 65 to continue to contribute to their retirement savings up until age 75 irrespective of their employment status.

The current work test rule requires individuals over age 65 to be gainfully employed on at least a part-time basis for at least 40 hours in a period of not more than 30 consecutive days in the financial year in which the contribution is made. This rule has little practical benefit and only serves to limit voluntary contributions to superannuation beyond age 65.

SPAA also believes the rule which currently allows individuals 64 or under to bring forward up to two years worth of non-concessional contributions without breaching the contribution cap rules, should be available to all individuals up to the age of 75. Again this restriction, which only applies to individuals over age 65, serves little practical benefit and has the effect of denying many individuals over age 65, who may not have had the opportunity to save for their retirement earlier, the opportunity to do. The confusion which this rule creates, and the way it is applied to individuals turning 65 during a financial year, is also a common cause of inadvertent contribution cap breaches.

Raising SG to 12% and introducing a contributions tax rebate for low income earners – SPAA supports the proposed increase in the SG to 12% along with the proposed introduction of a contributions tax rebate for low income earners. The increase in the SG will have a direct impact on the future level of retirement savings while having a minor impact on the take home pay of most individuals.

The introduction of a contributions tax rebate will encourage higher levels of voluntary contributions as all individuals regardless of their income will benefit from the tax concessions afforded to superannuation.

2. How are your proposals financed over the short and longer term?



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In summary, to encourage voluntary savings under pillar three and reduce reliance on the age pension under pillar one, SPAA is proposing the following:

- The raising of the concessional superannuation contribution cap to \$35,000 for all individuals over age 50 and further research to validate the level of contributions which achieve the appropriate balance between equity and adequacy.
- Fund members who exceed their non-concessional contribution cap should have a genuine right of rectification and this rectification should enable members to minimise their excess contributions tax liability.
- Individuals should be permitted to “opt-out” and not incur excess contributions tax simply because their employers are required to satisfy statutorily imposed SG obligations.
- The removal of superannuation contribution work test for individuals over age 65 and the extension of the two bring forward rule for individuals over age 65.
- Increase the SG to 12% and introduce the contributions tax rebate for low income earners as proposed.

SPAA acknowledges the budgetary cost of increasing the standard concessional contribution cap of \$25,000 by \$10,000 for all individuals over 50. However, the cost to revenue of increasing the concessional cap by \$10,000 would be partially offset by the cost savings associated with not increasing the cap to \$50,000 for all individuals over age 50 with a balance less than \$500,000.

While these cost savings are unlikely to be fully offset by the cost of increasing the standard concessional cap by \$10,000 for all individuals over 50, the aim of this proposal is to avoid the extensive administrative and equity shortcomings of the \$500,000 threshold proposal. Although we are not in a position to assess the revenue “breakeven” point, we would suggest that in any case the Government should give consideration to a modest increase in revenue cost acknowledging the strong appeal of the longer term administrative / communications efficiency gains that this approach would produce.

In terms of the other proposals put forward by SPAA, each proposal has been put forward with a view to encouraging higher levels of voluntary savings. Underlying all of these proposals is the expectation that increasing superannuation contributions will have a cost to Government revenue in terms of the tax concessions afforded to such contributions and to superannuation savings in general. However, these costs would be offset in the long term by higher levels of retirement savings across all income ranges and the associated reduced reliance on the age pension. It is our understanding that the tax revenue impact of the increase in the SG and the budgetary cost associated with the introduction of a contributions tax rebate for low income earners have already been built into the Forward Estimates.

LIST OF ATTACHMENTS



Australian Government



A tax plan for our future
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- Joint industry submission - \$35,000 concessional contribution cap for over 50s
- SPAA's concessional contribution refund submission