Hello,

My submission relates to personal tax. It is about changing the taxation and superannuation systems to provide another tool for managing inflation.

Inflation control is currently dominated by the manipulation of interest rates. Drawbacks include:

- large impact on some sectors; for example, home loan borrowers and some businesses

- no impact on some groups

- other groups, such as those receiving income from interest-bearing investments, benefit from high interest rates

- Australia has persistently high interest rates compared with other developed countries

- a huge drain of financial resources on interest payments, with few beneficiaries

- no increase in national savings

- it's unpopular with those adversely affected

I suggest a new approach, using Variable Superannuation Contributions (VSC) to reduce our reliance on interest rates.

Variable Superannuation Contributions would be paid on top of the 9% Superannuation Guarantee. They would come out of pre-tax earnings (and would therefore not constitute a pay rise) and be treated the same as Salary Sacrifice. The rate would vary between 0% and 4% of gross income and would be set by the Reserve Bank or Treasury. In a boom the rate would go up, reducing disposable income and dampening inflation. During a slowdown the rate would drop to 0% or 1%, boosting spending. The "neutral rate" would be 2%.

Benefits would include:

- Lower interest rates over the course of the economic cycle

- Less variation in interest rates over the economic cycle

- Lower finance costs for businesses

- Less impact on households with home loans

- Spreading the effect of inflation-fighting measures over a larger portion of the population (i.e. the 12 million Australians with super)

- Small impact on employers. As well as 9% SG on top of gross earnings, they would deduct the 0 - 4% (deducted from gross earnings) VSC and pay it to the same super fund

- More palatable: higher retirement savings (versus higher loan payments)

- Australians understand the sense of increasing savings during good times and boosting spending in softer periods

Modelling:

Interest rate change

Consumer lending is approximately $1.3 trillion. Commercial lending is approximately $620 billion. Total outstanding finance is close to $2 trillion. Take out fixed rate products and round down to say $1.5 trillion. A 1% change in official interest rates generates a change in annual interest payments of approximately $15 billion.

VSC change

Total employment is approximately 11.5 million. Average earnings are approximately $54,000 p.a. 11.5 million x $54,000 = $621 billion total annual earnings. A 1% change in super contributions would be approximately $6 billion p.a. A change of 2.5% would amount to around $15 billion p.a.

So, an increase in superannuation contributions of 2.5% of gross earnings would be roughtly equivalent in dollar terms to a 1% increase in official interest rates.

Impact on a family with a home loan:

Consider a family that has a $200,000 (variable rate) home loan with a 20 year term remaining. The household's (PAYG) income is $60,000 p.a.

If interest rates go up 1% the minimum home loan repayment increases by $117 per month or $27 per week.

If super contributions went up 2.5% the effect would be $125 per month or $29 per week.

Timing

I suggest introducing VSCs at the next round of tax cuts so that workers don't experience a drop in take-home pay.

I have a background in both superannuation and home loans. Thank you for considering my suggestion. Please contact me if you have any queries.

Andrew Macknamara