

Tax Forum Discussion Paper

Tax Reform Next Steps For Australia

Submission

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Table of Contents

| | |
|-----------------------|---|
| Background | 3 |
| Superannuation | 3 |
| Recommendations | 4 |

Background

The deputy Prime Minister and Treasurer has released a discussion paper titled “Tax Forum Next Steps for Australia”. This paper covers the tax reform, which is built around three key elements. They are:

- Reform to make the economy stronger.
- Reform to make the tax system fairer.
- Reform to make the tax system simpler.

The above reforms will have an impact on the Australian Superannuation System to provide a stronger, fairer and simpler benefit to our retirees.

Superannuation

The government has initiated a number of reforms recently such as Concessional Contributions Cap, Low Income Earners Government Contribution, Increasing the Super Guarantee Rates to 12% and raising the Superannuation Guarantee age limit from 70 to 75. Most of these reforms show that we are heading in the right direction with retirement policy but fine-tuning is still necessary in some areas.

Recommendations

Recommendation 1

Concessional Contributions Cap of \$50,000 for those aged 50 & Over and the Account Balance below \$500,000

The account balance rule (below \$500,000) is not a good option because of two reasons. Firstly, a \$500,000 account balance is not an adequate amount to retire these days and secondly many trustees may find it hard to administer this Account Balance Limit. This will create not only administrative issues but also be a very costly exercise for trustees to manage efficiently including system enhancement. It would be simpler for trustees if the Government removes the \$500,000 limit to help maximise all employee retirement benefits.

Recommendation 2

Low Income Earners Government Contribution of \$500

Government measures to provide a superannuation contribution of up to \$500 annually for individuals on adjusted taxable income of up to \$37,000 must be 'indexed' and 'adjusted'. With the increase of the Super Guarantee rate from 9% to 12% and also with the annual CPI increase, the Low Income Earners government contribution limit must be indexed and adjusted annually to improve equity.

Recommendation 3

Contribution Tax of 15%

It is very encouraging that the government has increased the Super Guarantee Limit to 12% gradually. Many can argue that this limit is not adequate to meet future retirees needs. At the same time employer groups may argue it is impossible for them to increase the Super Guarantee Limit due to additional cost involved in running the business and hiring resources. Therefore the Government must take into account both arguments to address future 'Super Guarantee' improvements. It would be ideal to reduce the Super Guarantee Tax Rate from 15%, this way net contributions that go into a retirement benefit pool will increase without affecting the employer's affordability.

Personal tax rates have been reduced considerably in the last few years and therefore it would be a good strategy to consider the future tax improvements on 'Super Guarantee' to maximise the retirement benefits for all workers.