Australian Government

A tax plan for our future
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STATEMENT OF REFORM PRIORITIES

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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?

   - Improving Equity in Superannuation Contributions Concessions
   - Building Stability and Confidence in Superannuation Settings
   - Facilitating Retirement Income Product Development
   - Rationalising the taxation of transfer payments, number of tax offsets

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

LIST OF ATTACHMENTS

Feel free to attach supporting papers if you wish. Please list them here.

Nil

Improving Equity in Superannuation Contributions Concessions

Through the Superannuation Guarantee (SG), the pool of savings to fund Australians during their retirement has increased dramatically over the past twenty years. Both the depth and breadth of coverage has increased. The proposed increase in SG to 12% will continue the deepening of savings, individually and collectively. The breadth, or coverage, of superannuation has also expanded as a consequence of the SG though the equity in concessions remains skewed to high income earners.

The move to rebate the contributions tax for those under $37,000 is a welcome move. However this has removed a disincentive rather than provided an incentive for those with taxable incomes under approximately $20,000 (if the effective tax rate including the Medicare Levy and the Low Income Tax Offset are considered under the post carbon-tax rates). Notwithstanding its attractiveness, the ability of the Government Co-Contribution to deliver a contribution incentive to low-income earners has been limited, with the AFTS noting that only 20 percent of those eligible are accessing it. The incentives for accumulation within superannuation therefore remain with high income earners. The exclusion of those with monthly income less than $450 from SG requirements is a further inequitable outcome of the existing arrangements.

Exploring means of providing additional contributions for these low income earners should be a focus. Increasing the rebate to 25 percent for those with incomes less than $37,000 for example (focussing only on statutory tax rates as a basis), is one option. The $450 threshold for SG contributions should be removed with consideration given to the increased administrative and financial burden imposed on business.

Building Stability and Confidence in Superannuation Settings

AFTS Recommendation 23

The recommendation seeks to build awareness of the retirement income system through aligning payment of contributions with wages. This is supported. The recommendation also identifies establishing a superannuation portal to facilitate interaction with government agencies and for receiving information. This is also to be supported but this should build on very useful websites such as ASIC's MoneySmart, which can become an integrated information site which individuals can trust to store and use their personal financial data.

Related to the recommendation is the need to establish a clearer articulation of, and commitment to, the basis of the age based concessional contributions cap and the non-concessional cap. Frequent changes to the caps for concessional and non-concessional contributions caps, as has happened over recent years, does not build confidence in the system. The focus on annual caps, and associated penalties for breaching these annual caps, are punitive and unnecessarily encourage a short term focus and do not allow for the reality that ability to save is not uniform over working lives. Limiting the total amount of concessional and non-concessional contributions is supported but a more flexible means of achieving this is needed, for example accumulation of unused caps. A clearer articulation of the principles that underpin the caps is a necessary step in building awareness.

Facilitating Retirement Income Product Development

AFTS Recommendation 21

The recommendation seeks to develop the longevity insurance market in Australia. The recommendations are supported, with the exception that government does not become a provider of such products. The government should facilitate product and market development where possible, such as removing hurdles as discussed below or through production of longevity indices, but not be a player itself.

The SG has facilitated the accumulation of increasing superannuation balances. The development of suitable products to facilitate the drawdown of these funds, in particular ensuring longevity risks are catered for, has not matched this. The absence of suitable products transfers the risk to taxpayers through the provision of the Age pension sooner and for longer. Removing the legislative biases against longevity products such as deferred lifetime annuities, is a necessary step. Through adoption of recommendation 19 the AFTS argues that the tax concession bias is effectively removed against development of such products. In the absence of recommendation 19 a more direct amendment is required.

The AFTS argues against a compulsion to annuitize a portion of superannuation lump sum. The personal choice and equity arguments supporting this view are strong. However, the need to underline the fundamental purpose of the superannuation system as providing sustainable *income* in retirement would be aided by a system design which specifically catered for it. One means of achieving this in a prospective manner, as well as bringing forward a focus on retirement income to the accumulation phase rather than at retirement, is to earmark a portion of the proposed SG increases as being required to purchase of lifetime income products.

Rationalising the taxation of transfer payments, number of tax offsets

AFTS recommendations 4 to 7

The objectives of AFTS recommendations 4 to 7 are supported. The existing mix of taxation treatment and offsets has produced unnecessary complexity and perverse incentives which would be better addressed by rationalising the offsets, exempting transfer payments from tax, raising the tax free threshold and using direct outlays where required.