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ASFA's tax discussion paper submission

Against the objective of superannuation, under the current tax arrangements, superannuation is delivering on improving adequacy, achieving equity, sustainability, simplicity and maintaining confidence in the system. Additional increases to the rate of the Superannuation Guarantee (SG) and coverage across all working people would further improve the ability of the system to provide an income in retirement to substitute or supplement the Age Pension.

Given superannuation is already substantially delivering against the objective and principles underpinning the system, any change should be measured and consider how it relates to the key principles and confidence in the system. ASFA has identified two main areas for reform that are consistent with the key principles and ensuring confidence in the system, which we believe should be considered by the tax white paper secretariat.

1. Equity: sound design of the system

Equity is an important part of the sound design of a retirement incomes system. The Australian system is underpinned by tax concessions, which means that taxpayer value for those tax concessions must be broadly equitable. A good way to ensure equity is to place a ceiling on those taxpayer- funded concessions. In determining the ceiling, we need to look at the purpose of the system and ensure that the system is not used for other purposes.

ASFA considers that the superannuation system should not be used for the purpose of estate planning, and that to fulfil the purpose of the system, account balances should be close to zero on death, taking into account normal longevity.

This means that there should be a ceiling on where the system should stop providing taxpayer support for accumulating retirement savings or supporting incomes in retirement. ASFA's view that the ceiling today should be above $2.5 million; this ceiling may be raised over time. A small minority of people can use the system for estate planning and, unless the system design is changed slightly, then an even greater proportion will fall into this category in the future.

ASFA is recommending that a limit of $2.5 million be placed on the superannuation funds an individual can rollover to commence an income stream in retirement. Amounts above this ceiling must remain in the accumulation phase and continue to attract the nominal earnings tax of 15 per cent or be removed from superannuation. Non-concessional contributions should also be capped at $1 million over a lifetime to prevent very large balances from accruing in the future as an integrity measure to complement the $2.5 million capital cap.

2. Adequacy: broken work patterns

An issue of concern is the capacity of individuals with broken work patterns to make 'catch up' concessional contributions. The concessional contribution caps generally do not enable those individuals to make sufficient additional contributions to save enough for retirement.

A significant number of people experience broken working patterns, with time out of the paid workforce for reasons such as the provision of care-giving (be it children or other family members), to study or as a result of unemployment or underemployment.

ASFA is recommending that concessional contribution caps should be changed in such a way that individuals with broken work patterns are able to make sufficient contributions. Accordingly, we recommend that this is a significant issue which should be considered in the green paper.

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Key findings

Under the current tax arrangements, superannuation is broadly achieving its primary objective.

- This will be supported further by increasing the SG rate from 9.5 per cent to 12 per cent and continuing the Low Income Superannuation Contribution (LISC).
- Any change to the system should not undermine the importance of ensuring adequacy for individuals.

An appropriate ceiling for the current full tax concessions in superannuation to ensure the system meets its purpose is $2.5 million.

Further work needs to be undertaken to evaluate methods for improving flexibility in superannuation to allow individuals with broken work patterns to be able to make "catch-up" contributions so as to achieve a higher income in retirement.

Removal of dividend imputation would have a negative impact on superannuation, reducing incomes in retirement by $4,000 on average.

The cost of superannuation tax concessions to the government is substantially lower than that reported in the tax expenditure statement.

Tax concessions in superannuation, by encouraging voluntary contributions to superannuation, are reducing the cost of the Age Pension.

Superannuation has contributed to a higher level of savings than would otherwise be the case which:

- has reduced the cost of capital in Australia and had a positive impact on economic growth; and
- assisted Australian companies to refinance during the recent financial crisis when international capital was scarce.

Superannuation has contributed to broader and more risk appropriate investment by individuals and the professional investment of savings through superannuation has had a positive impact on economic growth.

The tax treatment of superannuation by encouraging voluntary contributions, has contributed to the creation of pool of capital which is available for long-run investment such as infrastructure and start-ups that would not otherwise exist. This has had a positive impact on economic growth.

Recommendations

The objective and principles of superannuation should be considered as the basis for evaluating any proposed changes to the tax treatment of superannuation.

Changes to the tax treatment of superannuation need to be considered in the context of the full retirement incomes system. Changes to the Age Pension also need to be considered in the context of their impact on superannuation.

The current system design should be adjusted so that it only delivers on its purpose to substitute or supplement the Age Pension.

The Review Secretariat should:

- consider options to limit the tax concessions for those with very high superannuation balances in retirement; and
- consider a capital cap.

The Review Secretariat should consider options to limit non-concessional contributions caps to increase equity in the system, including consideration of a $1 million lifetime non-concessional contributions cap.

The superannuation preservation age should be set five years younger than the Age Pension age, up to a maximum of 62.

Access to a limited income stream should be available from age 60 for:

- those who have been unemployed for a specific period of time
- those seeking to retrain
- Indigenous Australians
- those employed for 20 years or more in specified professions.

Stamp duty on life insurance should be abolished.

As the tax discussion process continues, there needs to be further consideration of care and maintenance issues.

The Australian Taxation Office (ATO) should be tasked to consolidate, on an individual taxpayer basis, information from annual Member Contributions Statements (MCS) and use that information to prepare an amalgamated superannuation balance statement for inclusion with the notice of assessment of each taxpayer following the lodgement of their annual income tax return.

Additional funding should be devoted by the ATO to respond to employee complaints about non-payment of superannuation contributions and to improve the level of SG compliance generally.

The government should work with the industry to establish a mechanism for funding the Gateway Network Governance Body (GNGB).