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Committee Secretary
Standing Committee on Economics
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Parliament House
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Dear Sir

**INQUIRY INTO MINERAL RESOURCE RENT TAX BILLS 2011**

The Association of Superannuation Funds of Australia (ASFA) would like to provide this submission in relation to the inquiry into the group of Bills which have been collectively referred to as the Mineral Resource Rent Tax Bills. Our comments relate specifically to the Bills and provisions dealing with the increase in the rate of the Superannuation Guarantee, the introduction of the low income earners contribution tax rebate, and the removal of the age cap (currently age 70) for receipt of Superannuation Guarantee contributions.

**About ASFA**

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through our service provider membership, represents over 90% of the 12 million Australians with superannuation.

ASFA strongly supports the provisions in the Bills relating to superannuation.

**Superannuation Guarantee (Administration) Amendment Bill 2011**

Schedule 1 to the Superannuation Guarantee (Administration) Amendment Bill 2011 amends the *Superannuation Guarantee(Administration) Act 1992* (SGAA 1992). Specifically, the amendments will:

• raise the superannuation guarantee (SG) age of an employee at which the SG no longer needs to be provided from 70 to 75 (ASFA understands the Government is to remove the age limit altogether by way of an amendment to the Bill) ; and

• gradually increase the SG charge percentage from 9 per cent to 12 per cent.

*Increasing the rate of the Superannuation Guarantee*

The proposed increase in the rate of the SG is justified on the basis of the improvements in retirement outcomes that it will deliver. Pursuit of this measure also is important to maintain the confidence of Australians in future superannuation arrangements. In this context, survey evidence indicates that both superannuation and the prospective adequacy of retirement incomes have become "top of mind" topics for most Australians. Polling for ASFA indicates that around two-thirds of the adult population support the increase in the rate of SG. Having enough money to retire with is identified by survey respondents as their most pressing financial concern.

The Government proposals in regard to an increase in the SG to 12% involve change, but to the benefit of superannuation fund members. In contrast, the Henry Review recommendations on superannuation would have adverse impacts for most fund members (in regard to both take home pay and retirement savings) and would also lead to lower net tax revenues to government for many decades to come. This has been extensively illustrated in the document *Spotlight on Henry* which was prepared by ASFA and which is attached.

On the other hand the proposal to increase the SG to 12% would unequivocally assist future retirement incomes while having only a relatively minor impact on take home pay, particularly when compared to the Henry Report recommendations.

The legal incidence of the Superannuation Guarantee falls on employers, but the economic incidence (the actual burden) basically is passed on to employees. The fact that the increase in the SG will be phased in over seven years provides assistance to employers in planning to adapt to its introduction. The impact on wages costs in any one year will be small. SG contributions will be phased in very gradually with 0.25 percentage point rises in 2013-14 and 2014-15 and 0.5 per cent increases after that. Additionally, the already sizeable proportion (25 per cent) of employees who already have superannuation contributions greater than nine per cent will ameliorate the effect and short term impacts on employers.

The phasing in will also mean that take home pay will in effect not be reduced in any year. What will occur is that pay rises linked to increased prices and productivity growth will be slightly lower than they would otherwise be. This was the case with the phasing in of the SG from 3% to 9%. It would also be the case for a phasing in of an increase from 9% to 12%.

In contrast, through requiring contributions to be paid from post-tax income and through the various tax rate changes the Report proposed, adoption of the Henry Report approach generally would lead to reductions in take home pay. In many cases these would be substantial.

Treasury analysis that was released in October 2010 indicates that the aggregate reduction in disposable income for the 13 million Australians affected would be $12 billion. There also would be a $3 billion per annum cost to government revenue as the loss of contributions tax and the proposed contributions tax rebate would substantially exceed the additional personal tax collected from individuals at the new proposed tax rates.

The Henry Report recommendations would also lead to considerable new complexity, particularly in regard to transitional arrangements and ongoing record keeping and reporting. In ASFA's view the provisions in the Bill are far superior and should be passed by the Parliament.

*Affordability for small businesses*

Statistics released by the ABS indicate that out of around 10 million persons employed by private sector businesses, around 4.7 million are employed in small businesses (defined as having less than 20 employees).

The total wage and salary bill for these small businesses in 2009-10 was around $130 billion. Not all of these wages would be subject to the SG requirements for an increased contribution, either because they related to employees earning less than $450 a month or with earnings above the cap for SG contributions, or they involved salary sacrifice contributions by an owner manager of an incorporated small business. A generous estimate of wages subject to the SG for such businesses is $120 billion.

The increase in labour costs due to the SG increase in 2013-14 is likely to be minimal given that wage negotiations (both collective and individual) would take the SG into account when setting wages in that year. Typically nominal wages grow by around 3% a year, in line with general growth in prices and increases in community living standards. An SG increase of 0.25% or 0.5% in later years similarly would be relatively small relative to other labour cost increases incurred by both small and large businesses.

Even if there were no offsetting effect on wages the required increase in the price of goods and services produced by small businesses in order to offset the increase in the SG would be relatively small. While the exact percentage would vary from small business to business, the ABS figures indicate that on average a 0.25% increase in labour costs could be offset by a 0.036% increase in prices. The full 3% increase in the SG would be covered by a 0.44% increase on average in prices. Both amounts are very manageable, particularly given that the full SG increase is proposed to be phased in gradually over 7 years.

As well, small businesses are to receive a number of tax concessions. The amount of increased SG contributions in dollar terms paid by small businesses is likely to be around $300 million in 2013-14 and a further $300 million or so in 2014-15. Other Government proposed measures will deliver tax savings to small businesses which exceed those amounts.

More specifically, the government will provide Australian small businesses with an instant tax write-off of the first $5,000 of any motor vehicle purchased from 2012-13. This measure is estimated to cost $350 million over the forward estimates. As well other tax concessions for small businesses to be introduced in 2012-13 allow:

- an immediate write-off of all assets valued at under $5,000 (up from $1,000 presently) estimated to cost $1.7 billion over the forward estimates;
- a write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30 per cent. Currently, small businesses allocate assets to two different depreciation pools, with two different depreciation rates (30 per cent and five per cent); and
- a reduction in company tax rate to 29 per cent for incorporated small businesses.

*Removing the age limit on Superannuation Guarantee contributions*

ASFA supports compulsory superannuation (SG) contributions being paid on behalf of all employees regardless of age. The existence of an age cap on compulsory contributions in effect discriminates against older workers. It also adds another layer of complexity for employers in administering compulsory superannuation. Employers generally are prohibited by law from discriminating against older workers and it is inappropriate to have in place a legislative provision which in many instances leads to workers aged 70 and over receiving remuneration which is less than for younger workers undertaking exactly the same work.

As well, employers do not necessarily hold details of an employee's age or the details may not be accurate. With increasing longevity and better health for older Australians an increasing number of individuals will be capable of working longer if they wish to. Employment policies and superannuation settings should be supportive of employees who choose to work either full or part-time in order to contribute to their living expenses after age 70.

Only a small proportion of individuals aged 70 and over have superannuation or other financial assets sufficient to support a comfortable lifestyle in retirement, as defined by the ASFA Retirement Standard. Employment income (with further associated SG contributions) after age 70 can significantly bolster retirement incomes. Superannuation contributions will further assist the improvement of living standards in retirement.

ASFA supports the proposal in the bill to increase the SG age limit from 70 to 75 and more strongly supports the Government's announcement that the bill will be amended to remove the upper age limit.

**Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill 2011**

Schedule 4 to this Bill amends the *Superannuation (Government Co-contribution for Low Income Earners) Act 2003* to enable eligible low income earners to receive the low income superannuation contribution.

In considering tax concessions for superannuation two issues must be weighed –

1. the importance of encouraging private provision so that future retirees can substantively achieve their goals of income in retirement and also contribute towards the country's future economic prosperity; and
2. recognition that in a country which supports a progressive income tax, appropriate levels of support should be provided for individuals across the income range.

The proposed tax rebate for low income earners would assist in meeting both these goals.

A number of commentators have observed that currently for individuals with taxable income less than $37,000 a year the current tax arrangements do not provide any incentive for such individuals to make contributions and for those on a zero tax rate actually disadvantages the making of concessional superannuation contributions which are taxed at the rate of 15% when they are received by a superannuation fund.

The proposed low income superannuation contribution rebate deals with these issues. It is affordable in terms of the aggregate cost to the Commonwealth. It also is administratively feasible in that it builds on existing administration and payment mechanisms in place for the superannuation co-contribution.

In contrast, the proposals in the Henry Review Report would lead to additional costs to government revenue and would involve very substantial administrative and compliance difficulties and costs.

Overall the combination of an increase in the rate of the Superannuation Guarantee and the introduction of a low income earners contribution tax rebate will lead to better retirement outcomes and more equitable tax treatment of individuals than the proposals in the Henry Review Report. In ASFA's view the provisions in the Bill are far superior and should be passed by the Parliament.

If you have any queries or comments regarding the contents of our submission, please contact Ross Clare on (02) 8079 0809 or by email rclare@superannuation.asn.au.

Yours sincerely

Pauline Vamos
Chief Executive Officer