SMSF
Owners'
Alliance
Limited ABN 96 161 052 464
Not-for-profit public company

14 May 2013

Tax Risk to Super Remains

Delivery of a surplus in 2015-16 – the target set in tonight's Federal Budget – will depend on government spending discipline and the achievement of revenue forecasts. If these objectives are not met, this Budget will do little to ease the threat to superannuation savings as a source of tax revenue in the future.

The Budget shows that government spending will continue to rise apace.

Getting the budget back into balance and building sustained surpluses requires the Government to stop spending more than it can afford. If this task is not realised, super savings remain at risk of a tax slug.

Much has been made of falling revenue in recent weeks. However, the Budget shows the 'shortfall' is only against last year's budget forecasts. In actual terms, the Government is on course to increase revenue receipts by $20.5 billion in the current 2012-13 financial year. And tonight's Budget forecasts an increase of $25.6 billion in revenue for the coming year 2013-14.

So actual revenue received has been higher – not lower – for the current year and will grow again in the coming year and over the forward estimates.

Government payments this year – 2012-13 – are expected to fall marginally compared to the previous year but are budgeted to rise by $23.9 billion in 2013-14 and keep growing over the budget cycle.

Tonight's Budget asserts that the gap between revenue and spending will be closed in 2015-16 when a slim surplus will be achieved.

However, given budget performance over the past 5 years, there's every chance that spending will be higher than forecast and revenue will be softer than expected.

So savers need to keep a close watch on the Government's budget performance and remain on the alert to fend off any moves to reduce super savings incentives and further tax super fund earnings.

The analysis below shows that government spending has continued unabated since the GFC stimulus. Even if government spending stays on the budgeted track, achievement of the projected surplus in 2015-16 is critically dependent on expected revenues materialising as forecast.

As expected, the Budget confirms the recent announcement by the Government that from 2014, a new 15% tax will apply to individuals who earn more than $100,000 from their retirement savings, an impost that will fall most heavily on people using SMSFs as their preferred savings vehicle

In imposing this new tax, the Government is penalising retired Australians who have worked hard and saved hard to build up their super in accordance with the rules.

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$187Billion IN OVEREXPENDITURE AND RISING

We are pleased that the Government has not introduced any more taxes on superannuation in the Budget. However, we remain convinced that:

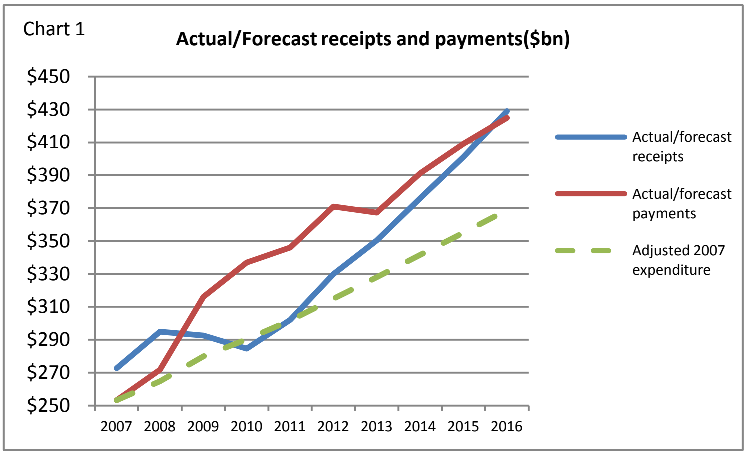
1. the new tax announced in April on pension earnings over $100,000 is misguided and unnecessary and introduces yet another complexity into the superannuation system;
2. The cost of tax concessions is not as high as the figures reported and furthermore the savings in Age Pension payments outweigh the cost of tax concessions;
3. For an individual, the value of tax concessions, as a percentage of total tax paid, **drops** dramatically as income rises;
4. Although the concessional contributions cap is to be increased for over 60s and (later) over 50s, they are still inadequate and there is no planned increase in caps for other taxpayers;
5. If the Government had considered Dr Henry's recommendations and taken a long-term view of super and its funding, it could have made some major changes that would improve the effectiveness, efficiency and fairness of the super system and helped the long-term budget position;
6. The Government has made some attempt to reign in its excessive overspending but should do more if it is to fund socially acceptable measures such as better schools, disability and a switch to a more sustainable superannuation system;
7. This opportunity is not lost and, if elected to Government, we would expect the opposition to take such a long-term and objective view of the system.

In our Pre-Budget Submission to the Federal Government back in January, the first point we made was that the real problem for the Government was not that its tax revenue was low but that its expenditure was high.

We noted then the Treasurer's statement that the Government would no longer pursue a surplus with regard to the 2013-14 Budget but would continue to work towards a surplus Budget in the future. We supported the government's long-term objective but noted the fact that in 2011-12 taxes collected were the highest ever with tax receipts 40% higher ($88bn) than they were in 2006-07, including personal tax receipts equal to an average of about $10,000 per taxpayer.

The deficit last year occurred because the Government's **payments** were also the highest on record at nearly $120 billion (46%) **more** than in 2006-07. So how does the Government expect to fare this year and next?

Chart 1 below shows how rising government expenditures exceeded its taxation receipts in 2009 and this is expected to continue.



A surplus of $19bn in 2007 switched to a deficit of $23bn in 2009. At the time this was explained as a necessary deficit to fund stimulus for the economy in the GFC. Furthermore, it should be noted that despite the government's complaints about revenue losses, revenue from taxes has actually continued to rise after the GFC and is now substantially well above 2007 levels.

The reality is that expenditure has continued to rise since the GFC, causing the current deficit. Although in the current year "payments" seem to be temporarily under control (although "expenses" continued to rise!), the graph shows how today's Budget forecasts a dramatic increase in expenditure from 2013. Given the recent poor forecasting performance by the government, even this figure may be underestimated.

The government says it is expected to return to surplus by 2016 but, as the graph illustrates, this is only due to increasing taxes.

However, to present a fair picture of expenditure, one should adjust these figures for inflation and also for rising population.

So on this chart we have also shown what payments would have been if they had just increased from 2007 by CPI and population increases (dotted line). Even allowing for extra expenditure in 2008 and 2009, the budget would have already been in surplus – and the government more able to pay for various social reforms – if it had better managed its expenditure.

In this current year, expenditure is estimated to be $39bn over the level in should have reached if it had better controlled expenditure. Even if one were to accept that the $43bn overexpenditure in 2008/09 was acceptable stimulus to counteract the GFC, the cumulative excessive spending since that time and up to and including the figure budgeted for 2012-13 has now reached $187bn.

To put this into context, government borrowing is forecast to be$162bn as at 30 June 2013.

While it may be argued that government spending should be measured as a percentage of GDP, we do not believe that a growing economy should necessarily give any government a licence to spend more and to tax more.

It is basic good housekeeping – for a family or a business or a government – to keep spending within the limits of income.

The **risk** for owners of SMSFs is that these continued cost increases will require ever increasing taxes and that, given recent forecasting performance, there remains a further substantial risk that superannuation will again be targeted in the foreseeable future.

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