SMSF Owners' Alliance
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SMSFOA Members' Newsletter

#4 /2014

Dear Members

The Budget

The 2014 Budget delivered on 13 May has drawn a lot of fire as being unfair to those affected by the reining in of government spending.

On the other hand, business leaders have expressed support for the Budget strategy – they recognise that government has been spending too much for too long.

In our budget night media release, we said that the Government had made a start on tackling deficit and debt but needed to maintain spending discipline. We noted that governments can easily and quickly run up debt – it's much harder and takes longer to get the Budget back into surplus.

We're yet to see how the Budget bills will fare in the Senate whose political complexion changes on 1 July with an influx of new minor-party Senators.

Tax SMSFs and fix the Budget!

With so much media focus on the perceived 'unfairness' of the Budget, it was perhaps to be expected that SMSFs would be drawn into the firing line, being described as tax-advantaged vehicles for the 'old rich' to create wealth and hold onto it.

This was the line taken by the Grattan Institute which suggested in its report *Balancing Budgets* that the voluntary contribution cap should be lowered to $10,000 to save the budget $6 billion and people over 60 should pay 15% on their super fund earnings to save another $3 billion.

The Grattan Institute noted the total saving of $9 billion was enough to cover all of the specific spending cuts in the 2014 budget, including the family tax benefits, medical co-payment, unemployment, student fees and overseas aid.

It's so easy – just impose more tax on the 20% of Australians who actually pay tax and give more to the 80% of people who already get more from the government than they pay in tax. The Europeans have learned the hard way where this imbalance leads – to national bankruptcy. Many in Australia seem not to have heeded the lesson and want our government to keep spending more and selectively taxing more because our budget deficit and national debt are not (yet) as bad as they are in other countries.

The Grattan Institute's report earned a favourable editorial in the Sydney Morning Herald and prominent coverage in the Financial Review. The AFR did publish a letter from SMSFOA with an apt cartoon – see attached.

The Grattan Institute's report had echoes of the report released last month by the Australia Institute which went even further by proposing compulsory super savings without any tax concessions and a universal age pension. The Sydney Morning Herald published our letter – attached.

Friendly fire?

Then there's the claim on SMSF Investor Online that SMSFs as a group are paying no net tax on earnings because of the franking credits they receive on their shareholdings. Andrew Baker from Tria Investment Partners says this "does not necessarily indicate tax avoidance" but says it's not a good look.

Hang on, this is not about tax avoidance. As Mr Baker acknowledges, the tax on earnings in the accumulation phase is offset to much the same extent by the value of franking credits received by SMSFs. Franking credits are available to all investors. SMSFs benefit from franking credits because a high proportion of their assets (33%) is invested in listed shares, mainly in blue chip companies that pay franked dividends.

It is unhelpful for industry commentators to make references to tax avoidance when the ATO tells us that SMSFs have a very low incidence of auditor-qualified financial returns, around 2%, compared to other taxpayers.

Have no doubt, the portrayal of SMSFs as tax advantaged savings vehicles for the 'rich' and the calls for them to be taxed more will continue.

This theme was picked up on ABC Radio on 28 May in an interview with the Prime Minister:

MARIUS BENSON:
There was a lot of toughness in the Budget, all would agree on that, but the question that some have raised is why did you hit low and mid-income earners so hard and not go for tax breaks that favour the best-off – superannuation tax breaks, negative gearing? Are they no-go areas for you?
PRIME MINISTER:
Well, Marius, we did make very specific promises before the election that there would be no changes – no unexpected adverse changes – to superannuation in this term of Parliament, and you'd be screaming blue murder about broken promises, Marius, if there had been any changes to superannuation in the Budget. In any event, given all the changes that were made by the former government – and hardly a six month period went by without changes under the former government – we thought that a period of stability was what our country needed.

Tony Abbott's response is somewhat comforting for those who have saved their super nest egg under the existing rules. However, the 'unfairness' debate will no doubt continue.

People in glass houses…

Treasury Secretary Martin Parkinson was recently quoted as telling the National Press Club that the question of whether SMSF's are used for wealth creation would need to be looked at. If that's so, let's hope that Treasury and the Government bear in mind the very generous, defined benefit superannuation schemes they enjoy at the expense of taxpayers. The cost to the taxpayer of the super owing to senior politicians and public servants when they retire can run to $5 million and more for each of them. Last year, when the then Treasurer Wayne Swan proposed to tax the earnings on super accounts, hitting SMSF owners, he had over $5 million in his Parliamentary super account. As Treasurer, Peter Costello set up the Future Fund to underwrite public sector pension liabilities. The Future Fund now manages $97 billion in assets. This is money put in by the Howard Government and since grown by the Fund. The Rudd-Gillard Governments didn't put money into the Future Fund while running up ever larger Budget deficits. Given the size of the budget repair task faced by the Abbott Government, it will be many years before the Future Fund will benefit from injections of capital sourced from Budget surpluses and asset sales.

Apart from the recent Budget, the interim report of David Murray's Financial System Inquiry due around July and the foreshadowed Taxation White Paper which is likely in the next few months, will provide platforms for further public debate about the role of SMSFs and the taxation of them.

SMSFOA will be vigilant in protecting the interests of our members and SMSFs in general while remaining open to constructive change that will improve the effectiveness of Australia's superannuation system and encourage more people to save more in super without changing the goal posts on people who have already saved under the existing rules.

More friendly fire?

The Financial Services Council which represents the major retail superannuation funds regulated by APRA reckons SMSFs should also be subject to prudential supervision by APRA as well as by the ATO.

FSC put this proposal in their submission to the Financial System Inquiry to which we responded by pointing out there's a world of difference between funds that manage other people's money in trust and self-managed funds where the trustees manage their own money. Its unlikely David Murray's inquiry will pay much attention to the FSC's idea which gets no support from Treasury, APRA or from the Cooper review. But it's indicative of the attitude of the large managed funds towards SMSFs which they see as a threat to their income stream. Our media release is attached.

More than one million Australians in SMSFs

It's official. The ATO's latest statistics on SMSFs show that in the March quarter, the number of Australians who are members of self-managed funds ticked over the one million mark with 1,006,975 people in SMSFs. They are the owners of 528,701 SMSFs with total assets of $547 billion.

SMSFOA is the standard bearer for these one million Australians who have committed to financial independence in retirement without recourse to the taxpayer-funded age pension. Please encourage your friends and colleagues who have SMSFs to join SMSFOA so that we have the resources to effectively represent their interests in the public debate about tax and super policy.

They can sign-up online at our website: http://www.smsfoa.org.au/join-now.html

Next Newsletter

We'll aim to get another newsletter to you in a month.

SMSFOA Members' Newsletter #4/14.

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