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

**Need for stability in superannuation policy settings**

26 August 2014

SMSFOA's response to the Interim Report of the Financial System Inquiry, lodged today, supports the FSI's comments on stability of superannuation policy. Unexpected changes of policy, e.g. the taxation of superannuation, corrode confidence in superannuation as a long-term savings vehicle.

The Government should not view superannuation savings as a handy source of revenue when its Budget repair measures are politically frustrated.

Nor should it be swayed by claims that superannuation tax incentives are unfair.

The FSI's statement that "the majority of superannuation tax concessions accrue to the top 20% of income earners" fails to take into account that the proportion of superannuation tax benefits they receive is comparable to the proportion of income tax they pay and in fact lower. The Interim Report shows 57% of superannuation tax concessions go to the top 20% of taxpayers. ATO tax statistics show that these same taxpayers also pay 64% of all income tax collected.

SMSFOA also questions the FSI's suggestion that "the large number of individuals with very large superannuation balances suggests the superannuation system is being used for purposes other than providing retirement income." No evidence is provided for this statement. In fact, a relatively small number of people have high value SMSFs. The asset value of SMSFs depends on a number of factors including the performance of the fund over time, the number of fund members, the amount of non-concessional contributions they make, the transfer of related party assets and borrowings to build fund assets.

Policy recommendations and decisions should be based on the full facts – in this context the ATO should provide a more detailed analysis of SMSF assets including the amount accounted for by non-concessional contributions and the net value of assets against which borrowings have been made.

In other sections of SMSFOA's response to the FSI Interim Report we say:

- Changes to the structure of superannuation that make economic sense, i.e. moving from the current TTE (tax on contributions, fund earnings but not on withdrawals) system to an EET (tax exemption for contributions and fund earnings but tax on withdrawals) system, should be undertaken after careful policy consideration, consultation with stakeholders and transition measures to ensure that people who have saved under the existing rules are not disadvantaged.
- SMSFOA does not believe there should be any restrictions on the establishment of SMSFs on the basis of running costs. While low balance SMSFs are more costly to manage than accounts with APRA regulated funds, the majority of SMSFs have sufficient assets to make them cost effective. One of the motivations of people starting SMSFs is to escape the high percentage based fees of APRA-regulated funds as they grow their funds over time. Concern over SMSF costs should not distract from the relatively high cost of APRA-regulated funds in which most Australians are compelled to place their retirement savings.
- Dividend imputation was introduced, correctly in our view, to eliminate double taxation of corporate profits and remove the distortion that this would otherwise cause in the markets. We do not agree that the refunding of imputation credits to superannuation funds is a benefit. It is merely refunding tax that has been paid by corporations so that the only relevant tax rate is that of the investor in a corporation's shares.
- While SMSFOA shares the FSI's concern about leverage in SMSFs, particularly for SMSFs set up to invest in highly geared residential property, the answer may not be a return to a blanket ban on borrowings, as the Interim Report contemplates. A distinction should be made between residential and commercial/industrial property. SMSF investment in commercial/retail is four times higher than residential and less risky. If it is felt that a restriction on SMSF gearing is necessary, an option worth considering is to limit gearing to 50% of the value of an asset. This would effectively curtail the spruiking of highly geared residential property. SMSFOA supports ASIC's crackdown on property spruikers. Lending sources should also be identified and APRA should ensure regulated institutions have appropriate lending criteria.
- SMSFOA supports the FSI observation that the market for retirement income products is limited and needs to be further developed. However, we strongly maintain that SMSF investment in these products, e.g. annuities, should not be mandated.
- SMSFOA also sees benefits in further developing a retail bond market, acknowledging factors that have effectively made bonds a wholesale market product, and making them more accessible to SMSF investors, noting the ASX now offers government and corporate bonds. We believe bonds need to compete on their merits (price, liquidity and yield) for a place in SMSF portfolios.

SMSFOA looks forward to the opportunity to discuss points raised in our submission with members of the Inquiry panel.

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