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

Pre-Budget Submission - Parliament must allow the Government to rein in spending

29 January 2015

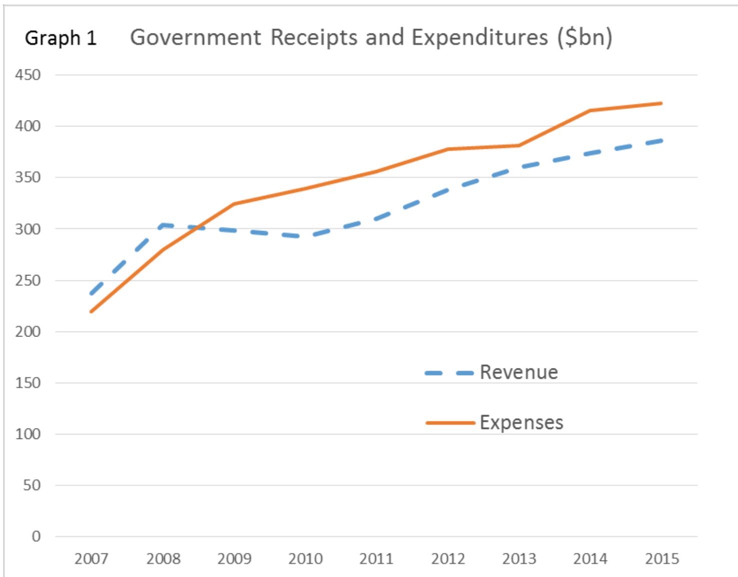
In SMSFOA's pre-Budget submission for 2015, we urge the Government to persevere with its efforts to reduce spending and not to resort to raising taxes to cover the Budget deficit it inherited from the previous Government.

We point out that the current Government, like the previous Government, does not have a revenue problem. Income and other tax revenue is still running at a record level. The problem is that spending is also still running at a high level.

While spending has levelled out in 2014-15, a significant gap remains between what the Government is collecting and what it is spending.

All parties in the Parliament, and particularly the balance of power Senators, must recognise this fundamental reality.

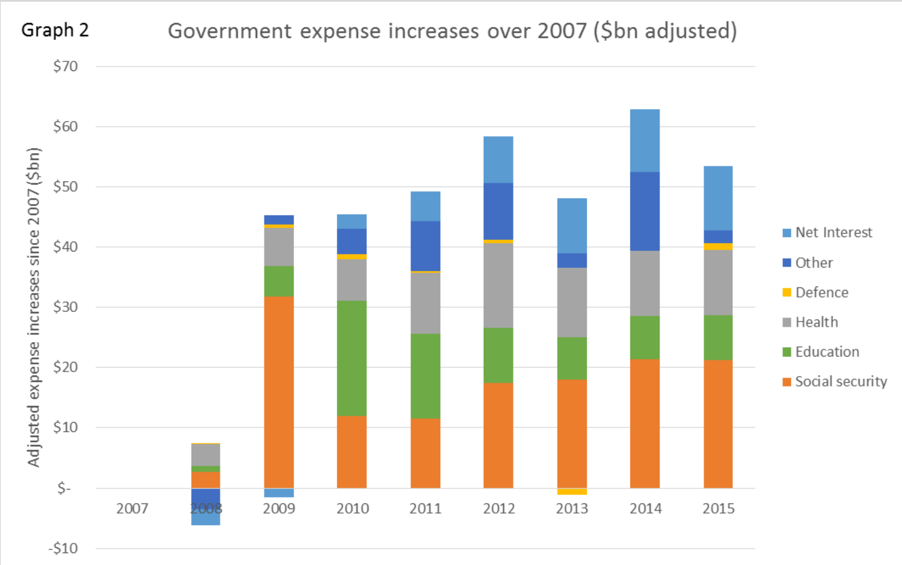
This simple graph illustrates the basic problem.



The second graph (below) shows increases in spending in billions (adjusted for inflation and population growth) since 2007. It shows continued significant increases in the Budget's 'big ticket' items – Social Security, Health and Education.

It also shows the dramatic impact of the Government's interest bill on funds borrowed to make up for the budget shortfall.

For all the complaints about last year's Budget, the fact is are that many billions more are being spent on Health, Education and Social Security.



The Government attempted to do more in the 2014 Budget to redress the imbalance between revenue and expenditure, but was frustrated in some of its spending cuts by the Opposition and the minor parties in the Senate.

In the face of this resistance, the Government should not be tempted to fiddle with superannuation in the Budget. Changes to the system should only be considered as part of a global review of the long-term stability of the system.

The impending Taxation White Paper is the most appropriate forum for a review and not the next Budget. The recommendations of the White Paper, which should cover long-term structural reform of the tax system, should not be pre-empted by Budget measures based on the perceived need to raise revenue to deal with an over-spending problem.

Apart from the Budget, SMSFOA's submission takes the opportunity to comment on some recommendations from the Financial System Inquiry and issues likely to be canvassed in the forthcoming Taxation White Paper.

Imputation

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 to them. It is merely a credit for tax that has been paid by corporations so that the only relevant tax rate is that of the investor in a corporation's shares.

We would not agree that a bias towards equities is the sole or even the most important impediment to the development of a retail bond market in Australia. Other factors such as price, risk and availability are more significant.

The existence of imputation may bias rational investment towards domestic equities and that may be why SMSFs' largest investment category is Australian equities. A high holding of domestic equities – earning over the long term a positive real rate of return and essentially an investment in the Australian economy –

provides SMSF beneficiaries with a natural hedge against their retirement expenditure which in most cases would be substantially in Australia and subject to Australian inflation and cost pressures.

Equity in superannuation

The FSI suggested that the existing system of tax concessions favours high income earners who would in any event be “likely to have saved sufficiently for their retirement, even in the absence of compulsory superannuation or tax concessions.” However, there is no evidence presented to support the FSI’s observation and we dispute it.

The fundamental purpose of the superannuation system is, or should be, to enable as many Australians as possible to be financially independent in retirement and enjoy a standard of living based on the widely accepted concept of a Replacement Rate. Those who achieve this goal will not be a burden on the Age Pension budget.

Our modelling has shown that “spending” a dollar on superannuation tax concessions is a more effective use of Government funds that paying out an Age Pension. The former encourages taxpayers to forego consumption during their working life in order to provide for their retirement. Most of the funds in super are an individual’s contributions. The tax concession is only approximately 10% whereas the Government pays 100% of an Age Pension. An efficient super system makes economic sense.

Gearing in superannuation funds

While the FSI’s recommendation that gearing should be abolished is not a Budget measure, we take the opportunity in our submission to express a view on this proposal and suggest a solution if the Government believes it is a problem.

Borrowing by self-managed superannuation funds is at relatively low level – around 0.7% of total SMSF assets according to the latest ATO statistics. At these levels, borrowing by SMSFs should be monitored, rather than banned.

However, if the Government is seriously concerned about SMSF gearing, then it could limit borrowings to 50% of the fund’s assets. Lenders can be encouraged to apply lower LVRs and ASIC should crack down on property spruiking.

About SMSFOA

The SMSF Owners’ Alliance is an independent, not for profit advocate for the interests of the one million Australians who are members of a self-managed superannuation fund. We focus on policy issues that affect their $560 billion (and growing) stake in the future and their aspiration for a financially secure retirement without recourse to the Age Pension.

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