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Treasurer needs to take a long term view on super taxation

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The Treasurer should ignore the chorus of calls for super fund earnings to be taxed in the May budget.

Instead, the Government should maintain its focus on long term reform of the superannuation system via the forthcoming Taxation White Paper.

Changes to the superannuation system have long term implications for all working Australians and should be considered only when a consensus view on the objectives of the superannuation system has been achieved, as recommended by David Murray's recent Financial System Inquiry.

Dr Ken Henry's 2010 report on the future of Australia's tax system remains essential reading for the authors of the White Paper and everyone who will be providing comments.

The White Paper should result in recommendations, based on careful economic analysis, to carry forward the evolution of an adequate and sustainable retirement savings system. This may involve changes to the structure of the taxation of superannuation. Any change should be implemented without disadvantaging people who have saved for their retirement under the present rules.

Such a measured and transparent approach is necessary to give certainty to retirement incomes policy and give Australians the confidence to invest their savings throughout their working lives to ensure financial independence in retirement.

Meanwhile, taxing the 'unfair' earnings of superfunds to reduce the budget deficit is not the easy fix some commentators are claiming. Their first premise – that superannuation tax incentives are a huge cost to the budget – is based on misuse of heavily qualified Treasury estimates. Their second premise – that the top 20% of income earners get around 55% of super tax concessions – conveniently overlooks that the same top 20% of income earners pay an even larger share, 65%, of income tax.

The earnings tax idea was tried by the previous government in 2013 and was not implemented by the current government as it was unworkable in practice and wouldn't have raised much revenue. It would have hurt people who had done the right thing and saved enough to support themselves in retirement without recourse to a taxpayer funded age pension.

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