



Australian Shareholders' Association



AUSTRALIAN INVESTORS ASSOCIATION



AUSTRALIAN CHAMBER OF COMMERCE AND INDUSTRY

SMSF Owners' Alliance

Limited ABN 96 161 052 464  
Not-for-profit public company



THE MELBOURNE SMSF GROUP



## Supplementary submission to the Tax White Paper Task Force on retirement incomes.

24 July 2015

### CONSENSUS ON PRINCIPLES AMONG LEADING ORGANISATIONS

We appreciate the Government's extension of the deadline for White Paper submissions dealing with retirement incomes. The generation of adequate and sustainable retirement income to give most Australians financial independence in retirement depends on a well-structured superannuation system that encourages Australians to maximise their savings during their working lives.

The objective of the Tax White Paper review is to consider alternative taxation structures and ideas which are tax neutral to the Federal Budget but are more effective and efficient in achieving their ends.

Whilst there may be variations of opinion regarding how this objective is best achieved, the undersigned agree with the White Paper objective and generally support the following principles and observations:

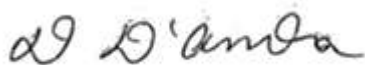
1. The current superannuation system is not yet mature and its full impact not yet felt. Criticism of the current system and its claimed 'unfairness' has been exaggerated by many commentators.
2. We may differ regarding whether to tax or otherwise limit high balances in super savings that have been legitimately accumulated under present and previous regimes. However, we agree that any such action should not compromise any improvements to the system for the long term, provided that, in the long term, unreasonably large balances cannot be accumulated on realistic investment returns assumptions and by using tax concessions.

3. The superannuation system, its costs and benefits should be considered as part of the overall retirement savings and incomes system, including the Age Pension and health care card.
4. The income tax system creates a bias against savings and some tax concessions are necessary to encourage Australians to save.
5. Different parts of the retirement income system have different objectives. The Age Pension provides a safety net to reduce poverty. Compulsory superannuation savings prevent over-reliance on the Age Pension from people with private resources and address behavioural biases that lead people to under-save. Superannuation tax concessions prevent compulsory and voluntary long-term savings from being overtaxed. The widely accepted benchmark is the “Replacement Rate”.
6. The Age Pension should be a ‘safety net’ for a minority of Australians for whom the superannuation system has not delivered an adequate income in retirement.
7. If the structure of the tax system is to change, a system known as EET (contributions exempt from tax; earnings exempt from tax and pensions taxed) is widely recognised as a more effective system than our current one.
8. However, changing back to an EET system would be difficult without the complexity of grandfathering to avoid unfairly taxing many Australians a third time.
9. The compounding effect of reducing taxation of earnings is significant and this may be one reason the EET system is used commonly overseas. A realistic compromise would be to retain the taxation of contributions but to move to tax-free superannuation earnings, whether in accumulation or pension phase – a TEE system – if this can be achieved with a neutral Budget impact. Alternative tax models could also be considered.
10. The caps on contributions should be retained as an economically effective way of limiting access to superannuation tax concessions, rather than taxing or limiting resultant earnings or balances.
11. The contribution caps should be set at a level that allows Australians to save adequately in super. Consideration should also be given to having a rolling cap or lifetime cap rather than an annual cap so as to provide more flexibility and opportunity to save for those with broken work patterns.
12. Changes to the superannuation system should not disadvantage Australians who have saved for their retirement under current and previous rules (that is, changes to the rules should not mean that superannuants who saved under previous rules would be worse off than the next generation of superannuants). Changes in taxation should be prospective rather than retrospective.
13. Detailed rules regarding the operation of super should be reviewed with the objective of simplifying the system so that more Australians can feel more engaged with their super.

Signed



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