SMSF Owners' Alliance
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SMSFOA Members' Newsletter #9 2015

In this newsletter:

- Government rules out superannuation tax increases…but the risk remains
- SMSFOA co-ordinates a Joint Letter on superannuation design principles
- Our follow-up submission to the Tax White Paper
- Joe Hockey explains why the Government won't touch tax on super
- Peter Costello reveals who does and who doesn't pay tax in Australia
- Duncan Fairweather sums up the current debate over super taxation
- Shareholders' Big Day Out coming soon

Government puts increased superannuation tax off limits in White Paper

The Prime Minister and the Treasurer have ruled out any increase in superannuation tax or reduced access to the benefits of superannuation.

The Treasury has confirmed that taxation of superannuation is off the agenda for the Taxation White Paper process.

But the game is not over yet.

As mentioned in last month's newsletter, the taxation of superannuation is going to be a live issue in the federal election due next year.

While the Coalition Government is committed to make no unexpected, adverse changes to superannuation and has pledged not to raise tax or reduce benefits, the Labor Opposition will be running to the election on a policy to apply a new tax on superannuation account earnings over $75,000.

And it is also evident that some of the policy makers within Treasury remain wedded to the idea of reducing the taxation benefits of superannuation. They have heeded the message from the Government for the time being, but have put plans for taxing superannuation on the shelf rather than in the bin.

This was made clear in a recent briefing by Treasury officials on the Tax White Paper process attended by SMSFOA.

SMSF Owners must remain vigilant.

Like minded associations join SMSF Owners in statement of principles

Associations representing investors, SMSF advisers and business have joined with SMSF Owners in a joint letter setting out the high level design principles that should apply to superannuation.

The joint letter has been sent to the Taxation White Paper Taskforce.

It has been signed by the Australian Shareholders' Association, the Australian Investors Association, the Self-managed Independent Superannuation Funds Association, the Melbourne Superannuation Group, Independent Contractors Australia and the Australian Chamber of Commerce and Industry collectively representing tens of thousands of individual investors and businesses.

The joint letter was reported in the Australian Financial Review on 27 July.

This group of organisations broadly agree that:

1. The current system is not yet mature and criticism of it and its claimed 'unfairness' have been exaggerated;
2. Increasing taxation of super earnings or otherwise penalising investment success are economically inefficient;
3. Caps on contributions are the best way to limit access to tax concessions but they should be more flexible with perhaps an unused cap carry-forward to assist those with broken work patterns to save;
4. It the tax structure is to be changed, a move to taxing contributions at progressive rates and removing all super earnings taxes could be one way to improve effectiveness of superannuation; but
5. Any changes should not be retrospective nor disadvantage existing savers.

See the full letter here

SMSF Owners lodge supplementary submission to Tax White Paper

SMSF Owners' took advantage of the Treasurer's extension of the submission deadline for the Tax White Paper process to lodge a supplementary submission to reinforce the concepts in our original submission.

In particular, our proposal that moving to a TEE system (tax on contributions, no tax on earnings and pensions) would be a more effective and fairer system without any adverse consequences for the Budget.

We wanted to make sure that the message gets through to the White Paper Task Force and to the Treasury officials who have been assessing the original round of about 800 submissions. Our supplementary submission can be found here.

"High income earners are not the problem. It would help if we had far more of them." – Peter Costello puts the debate over who pays tax into perspective – see his article below.

Joe Hockey: why we won't tax superannuation more

The Government's commitment not to change superannuation for the worse was explained by the Treasurer, Joe Hockey, to COSBOA's National Small Business Summit in Sydney on 17 July.

"In the case of superannuation, as I've said on numerous occasions, we are in a period of low returns and probably an extended period of low returns for superannuants, for self-funded retirees, part pensioners. Now is not the time to take more of those returns as Labor is proposing, for the tax man, because that simply diminishes the amount of money that they get in that pocket. Frankly, what we need, is for some period of stability in superannuation policy, particularly in relation to tax policy. As for the extraordinary amounts that some people have in their superannuation, they accrued it under old rules put in place by previous Governments. You would not be able to accrue some of the extraordinary sums that sit in superannuation in a handful of accounts at the moment. You wouldn't be able to do that now. So frankly, I think we should be all focusing on areas where we can get agreement, can get reform. And I welcome the Opposition's participation in the debate. I welcome comments from the Business Council, from COSBOA, from everyone. Everyone's got an opportunity to participate. I'm not sure that a blanket attack on everyone is necessarily going to be helpful to the debate."

In contrast to the Coalition Government's stance, the Labor Opposition plans to introduce a new tax on superannuation earnings above $75,000, about the level of average weekly earnings.

Investors' Big Day Out

The Australian Shareholders' Association is holding an investor roadshow with a strong speaker line-up and topics aimed to be useful for investors focussed on a hands-on approach to portfolio construction. The seminars will be held in all capitals and the Gold Coast from 20 August to 5 September. There's an early bird rate until two weeks before each seminar. To register call 1300 368 448 or go online at www.australianshareholders.com.au

For more details, see ASA's flyer at the end of the Newsletter.

Topical articles

In our member newsletters, we often print interesting articles that you may have missed or that are worth another read.

The former Treasurer, Peter Costello, weighed into the debate over who pays, or doesn't pay, tax in Australia in this article in Sydney's Daily Telegraph on 28 April.

LABOR'S TAX DELUSION

There are a lot of people in Australia who don't pay tax. Does that shock you? Well it shouldn't because that's the way our tax system is designed.

The 20 per cent of Australians on the lowest incomes pay no net income tax. They are entitled to income support through the pension, unemployment benefits, parenting benefits and other allowances. But they don't pay income tax.

The next 25 per cent of Australians pay hardly any income tax, on average, about $1500 a year or $30 a week. These two groups, representing 45 per cent of the population who file tax returns, pay under 4 per cent of the income tax in this country.

So who pays income tax?

Middle and higher income earners carry the income tax system. Those earning above $80,000 pay two-thirds of the income tax collected in this country. The 2 per cent of Australians on incomes above $180,000 really make up the revenue by paying 26 per cent of the country's income tax.

Since the country has gone into one of its bouts of envy politics, it is worth reminding ourselves of the facts.

High income earners are not the problem. It would help if we had far more of them. With more high income earners, tax collections would increase and help pay for all the benefits and services the poor rely on. Income tax is the greatest source of revenue for the commonwealth government. The second largest source of revenue is company tax. It shows the same pattern.

There are over 800,000 companies in Australia but it is 1000 companies that pay 60 per cent of the company tax. It is the big companies that make up the bulk of the government's company tax receipts. The only other major source of revenue is the GST.

Last week Labor announced proposals for a new tax on superannuation. Actually it was a re-announcement of something Labor announced in 2013, but never legislated when it was in government. The plan is to tax funds in the pension phase that earn more than $75,000.

Last time the plan was to tax them over $100,000. Labor said that would raise $350 million over four years. This time, by souping it up, it says it can raise $9.2 billion … over 10 years.

That's the estimate of proceeds between 2017 and 2027!

We used to announce the cost of policies on an annual basis. When that didn't sound enough we multiplied by four and announced the cost over a four-year period. Now it is apparently necessary to multiply by 10 to get some attention!

Let us suppose it is possible to enact this proposal and that it raised that kind of money. Let's get some idea of what it means in proportion to the budget. It would boost annual tax revenue by a fraction of 1 per cent. If it had come in and raised that kind of money in the decade since 2008 it would have reduced the cumulated deficits (actual and projected) by less than 3 per cent. The idea a tax like this could solve our budget problems is fanciful. It would not even amount to a rounding error in the budget. And that's if it raised everything promised.

In November 2013 after taking Treasury advice the (Coalition) Government said the complexity and cost of this proposal made the whole thing undeliverable. You remember the mining tax. Originally that was going to raise $9 billion a year. After Labor worked through the complexity and cost and legislated it into a workable form, it raised nothing. One of the reasons we got into this budget problem was the government booked undeliverable revenue then spent against it. History has a habit of repeating itself.

The trouble with the idea that we can tax the budget back into balance by soaking the rich is there just aren't enough rich to go around. The government raised income tax by 2 per cent for top taxpayers in last year's budget. This measure will raise $3 billion over 3 years and reduce the budget deficit by less than 3 per cent over that period.

In taxation it is more effective to raise small amounts from a large number of people than large amounts from a very small proportion of people. Raising the GST by 2 per cent would raise 10 times the amount that raising the top tax rate by 2 per cent will raise. That's because everyone pays the GST and only 2 per cent of taxpayers are on the top income tax rate.

And that top 2 per cent is already pulling its weight with 26 per cent of income tax. That's the other problem with the soak the rich policy.

It's not as if it's virgin territory. Just about everything that can raise a reasonable amount of revenue has already been implemented.

The government is right. The Budget problem is a spending problem. Just as you raise money by taking small amounts from lots of people you save it by cutting back on small amounts for *lots of people — a policy the government is trying to pursue by altering indexation and income thresholds that apply to the payment of benefits.*

Budgeting is a numbers business. Unless you touch the bulk of the population, then it doesn't touch the sides.

Tax uncertainty shakes confidence – SMSF Owners write for The Australian Shareholders' Association magazine *Equity.*

SMSF Owners' Duncan Fairweather traversed current superannuation policy issues in this guest article in the July issue of *Equity* – the magazine of the Australian Shareholders Association.

See *Tax uncertainty shakes confidence* at the end of the Newsletter

SMSF Owners' Alliance

28 July 2015

INVESTORS' BIG DAY OUT

Canberra, Melbourne, Adelaide, Perth, Sydney and Gold Coast

This seminar is designed for investors of all ages who are focused on having a 'hands on' approach to portfolio diversification. By attending you will gain a comprehensive overview of the current and future economic environment, investing outside of the ASX200, how to invest internationally, strategies to increase cashflow and be introduced to a range of investment products.

BY ATTENDING YOU WILL

- gain insights into the Australian and international markets
- learn different approaches to asset allocation
- understand why international equities play an important part in a portfolio
- learn how to find value outside of the ASX200
- review potential products to help create a diversified income stream
- understand investment characteristics and return drivers for property
- learn how to maximise short-term trading strategies

SPEAKERS INCLUDE

- **John Abernethy,** *Clime*
- **Peter Bell,** *Mosaic Property Group*
- **Gary Burton,** *FP Markets*
- **Chris Caton,** *BT Financial*
- **Anthony De Francesco,** *IPD*
- **Neil Godwin,** *The Professional Investor*
- **Gavin Hegney,** *LMW Hegney*
- **Warren Hogan,** *ANZ*
- **Alex Hughes,** *Clime*
- **Alan Hull,** *ActVest*
- **Ian Irvine,** *ASX - all states*
- **Craig James,** *CommSec*
- **George Kafantaris,** *Mosaic Property Group*
- **David Kirk,** *Bailador Investment Management*
- **Michael Kumm,** *Blackshaw*
- **Alan Langford,** *Bank West*
- **Elizabeth Moran,** *FIIG - all states*
- **Graham O'Brien,** *ASX - all states*
- **Tony Panetta,** *Realize Properties*
- **Jane Slack-Smith,** *Investors Choice*
- **Frank Watkins,** *ProTrader*
- **Paul Wilson,** *Bailador Investment Management*
- **Zac Zaccharia,** *Centra Wealth Group*

DATES

CANBERRA
Thursday, 20 August from 9am to 5pm
Canberra Southern Cross Club,
92-96 Corinna Street, Woden

MELBOURNE
Friday, 21 August from 9am to 5pm
Telstra Conference Centre, 1/242 Exhibition Street,
Melbourne

ADELAIDE
Wednesday, 26 August from 9am to 5pm
Adelaide University Club, Level 4, Union House,
University of Adelaide,
Adelaide

PERTH
Friday, 28 August from 9am to 5pm
Central Park Conference Centre,
152-158 Street Georges Terrace,
Perth

SYDNEY
Friday, 4 September from 9am to 5pm
ASX Theatrette, 20 Bridge Street,
Sydney

GOLD COAST
Saturday, 5 September from 9am to 5pm
Watermark Hotel, 3032 Surfers Paradise Boulevard,
Surfers Paradise

EARLY BIRD PRICES

ASA members $130pp

Non-members $150pp
first subscribe online for FREE and then register

Includes lunch, morning and afternoon teas

Early bird prices are available up to two weeks prior to the event, at which time registration costs will increase by $20.

To register call 1300 368 448 or register online at www.australianshareholders.com.au

Spaces strictly limited, please book early.

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Tax uncertainty shakes confidence

By Duncan Fairweather, Executive Director, SMSF Owners' Alliance

As shareholders know, confidence is a vital factor in investing. Confidence is sensitive to uncertainty. These days, investors must cope with many uncertainties in the global and national economies that play out in the equities and other financial markets.

What they don't need at this time is more uncertainty about their savings caused by proposed government policy change.

An investment adviser told me the other day, as the financial year was closing, that for the first time in his experience his clients are questioning whether they should make voluntary contributions to superannuation.

They are worried the rules will be changed and the contribution they make today may not be worth as much tomorrow and the money they save today may not be there when they need it most.

They are right to be worried.

Debate over the taxation of superannuation is heating up and it's likely to be a key issue at the next Federal election with a major difference in approach between the main parties.

The Shadow Treasurer, Chris Bowen, is looking for a mandate at the election for Labor's proposed 15% tax on account earnings over $75,000.

In response, the Prime Minister, Tony Abbott, has ruled out any new taxes on superannuation and accuses Labor of raiding the piggy banks of Australians.

Meanwhile, the Taxation White Paper process rolls on with many submissions proposing new taxes and limits on retirement savings.

The aim of the White Paper is to make taxation lower, simpler and fairer. Within that remit, there's scope for the White Paper process to come up with ideas to improve the current system and make it work better for everyone.

SMSF Owners do not believe a new tax on retirement savings is necessary or justified. We do believe that structural change to taxation is possible and desirable.

Some submissions to the White Paper have uncritically accepted the claim that the current taxation of superannuation is unfair and therefore people who have built up higher balances should pay more tax.

This claim is based on two propositions – first, that superannuation tax concessions cost the budget too much and second, that higher income earners get an unfair share of the tax concessions.

THE $32 BILLION FURPHY

It is often stated that superannuation tax concessions cost the budget $32 billion or more and will even reach $50 billion, equalling the cost of the Age Pension. These figures are not credible.

They are based on Treasury's annual Tax Expenditures Statement which are not 'real world' figures. They attempt to put a value on taxes the government has decided not to tax such as the GST exemption for food and education, capital gains on the family home and...tax incentives for retirement savings.

The $32 billion figures is mathematically incorrect as it is the sum of two components of tax concessions – on contributions and on fund earnings – which actually can't be added. Also, the TES figures can vary widely according to which benchmark is chosen. Using an alternative benchmark, the earnings tax concession on superannuation is not a tax expense at all, but a revenue gain.

Treasury has cautioned against using the TES as a measure of the revenue that could be gained if superannuation tax concessions are removed and says the TES "has no policy message". This warning has been reinforced by the Assistant Treasurer, Josh Frydenberg, who says: "the numbers in the TES are not budget costings".

Perhaps the most significant shortcoming of the TES is that it doesn't take into account the consequent increase in Age Pension costs if the volume of superannuation savings is reduced because of taxation.

Despite these strong qualifications, the $32 billion number is frequently recycled by the media and some commentators either through ignorance, laziness or because it suits their argument.

SUPER TAX CONCESSIONS OFFSET BY INCOME TAX PAID

While it is true that the top 20% of taxpayers get about 56% of the value of superannuation tax concessions, the other side of the coin is that they pay 65% of income tax collected. So their share of the superannuation tax concessions is actually a bit less than the share of income tax they pay. It is hardly surprising that a tax concession will be proportionate to tax paid.

The OECD says Australia has one of the most progressive tax systems in the world. The BetterTax Discussion Paper shows the top one third of income earners pay two thirds of income tax collected. The Treasurer has noted that the top 2% of taxpayers pay 26% of income tax.

Proposals for a new tax on superannuation earnings would mean further taxing the people who already pay the most in income tax.

Besides, many people who have substantial account balances are not rich - they have made a dedicated savings effort over many years, foregoing other spending in order to build a superannuation fund that will keep them financially independent and off the Age Pension through many years of retirement. They have kept their end of the bargain with government, that in return for modest tax concessions they will not expect other taxpayers to support them in retirement and old age. This is a laudable attitude which should be encouraged, not punished by tax based on envy.

Our modelling shows that tax concessions account for a minor part of the pension funding base - much less than 10%. Much more significant factors are contributions and fund earnings. These components are owned by the fund members who made the contributions and managed the funds either directly or through a fund manager.

The amount of money that can be channelled into superannuation funds is limited through caps on voluntary concessional contributions and non-concessional contributions on which tax has already been paid.

Much is made of the existence of a small number of very high value self-managed superannuation funds. These funds are exceptional and often very long established. It would be very difficult under today's contribution caps, to amass tens of millions in a self-managed fund.

THIN EDGE OF THE WEDGE

A new tax on superannuation above a certain limit, whether it is triggered by $75,000 in earnings or $2.5 million limit in assets as proposed by the Association of Superannuation Funds of Australia is wrong in principle and practice.

ASFA, which represents the mainstream industry and retail funds, is offering up self-managed funds as a tax sacrifice since higher balance accounts are in SMSFs not in the major funds.

It is the thin edge of the wedge. The Swan-Shorten proposal of 2013 was to tax earnings of more than $100,000. The Shorten-Bowen proposal of 2015 is to tax earnings of more than $75,000. Once a tax threshold is set, even just in a proposed policy, it can be changed by government.

It is unfairly retrospective. People will find their savings depleted by a tax that wasn't applicable when they made those savings and made life-changing decisions on the basis of the income they thought they could rely on in retirement.

Setting arbitrary limits will mean some people will be caught by the tax one year and not the next because of fluctuating fund earnings.

It will be practically difficult and costly to administer. The previous Government's 15% tax on account earnings over $100,000 didn't go ahead because Treasury and the ATO said it couldn't be collected efficiently and it wouldn't collect much. These issues remain with a $75,000 tax threshold.

And finally, it will be destabilising. When people make an investment over the long course of their working life and then retirement, they want to be sure the rules won't be changed whenever the government has a budget problem. Ideally superannuation should be ring-fenced from the budget in a bipartisan agreement on its purpose and tax settings.

MAKING SUPER BETTER

Can the superannuation system be made better without increasing tax? We think it can.

The system known as EET (contributions and earnings exempt from tax and pensions taxed) is a more effective approach and many countries structure their retirement savings system this way. However, changing back to an EET system would be difficult without the complexity of grandfathering to avoid unfairly taxing many Australians a third time.

A realistic compromise could be to retain the taxation of contributions but to move to tax-free superannuation earnings in both accumulation and pension phase – a TEE system – if this can be achieved with a neutral Budget impact.

Our modelling shows that if the present TTE (tax on contributions, tax on earnings, exempt from tax on pensions) system is transformed into a TEE (tax on contributions but earnings and pensions are exempt) system, then superannuation will work better for savers and the Government.

This change will require an adjustment to tax concessions on contributions to make them more progressive at the front end but give savers larger superannuation balances when they retire and maintain Government revenue in the meantime.

We have proposed this approach in our comprehensive White Paper submission which offers a constructive alternative to the many submissions that uncritically pick up the line that superannuation tax concessions are unfair and should be wound back.

The SMSF Owners' Alliance www.smsfoa.org.au is a not-for-profit advocacy group set up to offer an independent voice for the one million Australians who are trustees/members of self-managed superannuation funds. It makes submissions to government on policy issues related to superannuation in general and self-managed superannuation in particular.