FINANCIAL REVIEW

Super tax breaks: don't distort the system any further

Super contributions are already taxed progressively. Let's not go back to the overkill of a withdrawal tax as well, writes Robert Carling.

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"Superannuation tax hikes seem destined to serve as a sacrificial offering to the gods of revenue and fairness."

by **Robert Carling**

The bandwagon in favour of higher taxes on superannuation is gaining both passengers and momentum – as was clear at the AFR Tax Reform Summit. Like all bandwagons, however, this one has taken on a life of its own, unconnected to the merits of the case. Superannuation tax hikes seem destined to serve as a sacrificial offering to the gods of revenue and fairness in any grand tax reform bargain.

Before that happens, everyone needs to step back and consider whether there really is a case for yet another round of changes to superannuation tax – this time aimed primarily at increasing the tax paid by high-income earners already heavily burdened by personal income tax.

Sure, both the super concessions and the upper-income tax rates could be slashed, but who is suggesting that? It's the revenue they want. In any case, the concessions are grounded in the principle – widely accepted and applied – that saving and the return on saving should be taxed more lightly than standard income tax rates. Otherwise, the effective tax rate can be very high and act as a powerful disincentive. What we call "concessions", as if they are giveaways and distortions, are in fact necessary to correct a distortion.

Critics focus on the alleged $30 billion a year "cost", but this is grossly inflated by being based on the wrong benchmark of full tax rates. They then move onto the concession structure, which they say is skewed in favour of high earners because it fails to mimic the progressive personal income tax, and the absence of tax on withdrawals after age 60 lets off those with large super balances too lightly.

CLUMSY STRUCTURE

It is true that until 2007, tax was applied at all three points in the superannuation cycle – contributions, fund earnings and withdrawals. This clumsy and internationally anomalous structure was adopted in the late 1980s to inflate and bring forward revenue. There is no reason that the correct treatment of superannuation requires tax at all three points, just as a simple bank deposit is not double-taxed at entry, on interest earned, and on withdrawal.

There is no such thing as tax-free super. The tax is paid upfront on contributions and the return on investment. There is a legitimate question as to whether the structure can be improved by taxing contributions more and earnings less (as the Henry tax review suggested) or not at all. This should be explored, but there is no need to return to the overkill of a withdrawals tax or – what amounts to the same thing – a complex, targeted tax on fund earnings in pension mode.

As far as progressivity is concerned, critics of the system give little recognition to the fact that contributions tax has in fact been progressive since 2012, when the Labor government introduced a 30 per cent rate for those on incomes above $300,000.

Huge super balances are, as a Treasury official recently said, an historical artefact of defunct provisions. Access to concessions is most efficiently contained by contribution caps, although one option worth considering is to replace annual caps with a lifetime cap.

Robert Carling is a senior fellow at the Centre for Independent Studies.