

## **Memo to Treasurer: Drop all taxes on superannuation earnings**

20 January 2016

SMSF Owners has written to the Treasurer, Scott Morrison, and the Assistant Treasurer, Kelly O'Dwyer suggesting the best way to tackle superannuation tax reform option is to change the tax on contributions and remove the tax on fund earnings in the accumulation phase.

The Chairman of SMSF Owners, Bruce Foy, wrote: "Our strong understanding of 'fairness' is that all Australians should be given equal opportunity and treated equally, with the progressive income tax structure and social security system being the drivers of redistribution to assist those who are truly vulnerable and unable to survive without such assistance."

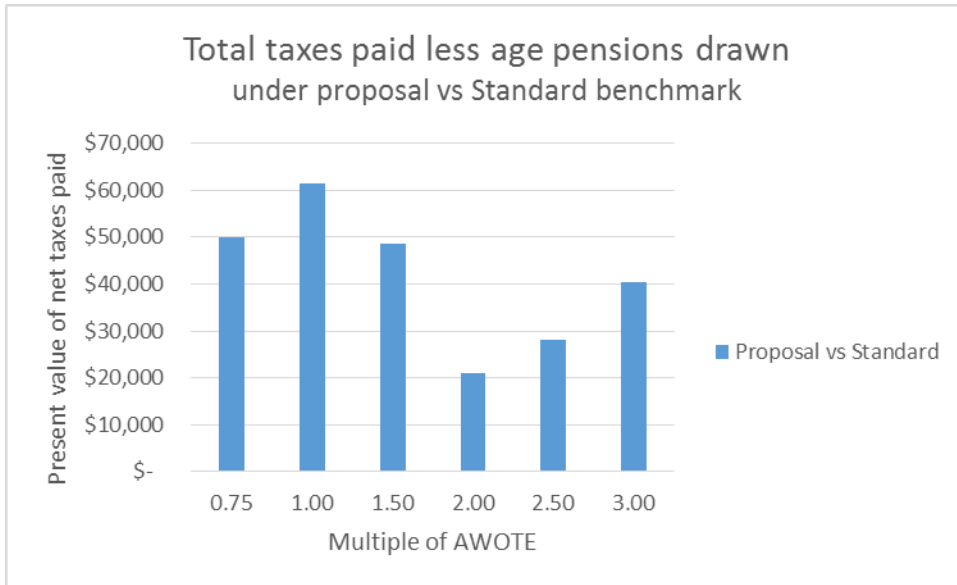
SMSF Owners says that we used to have a super system which is an international Standard, generally recognised as the ideal benchmark for an efficient savings system. Under this Standard, contributions and earnings are tax exempt while the final pension is taxed (also referred to as EET). However, because of new super taxes introduced by previous governments, it is now difficult to revert to this Standard.

Instead SMSF Owners believes we could move closer to the Standard by dropping all taxation of superannuation earnings and changing the taxation of contributions. This would increase tax efficiency, which should be an objective of tax reform, so that the tax concessions by Government can be lower to achieve the same result.

We support the proposal for progressive taxation of contributions with a flat % rebate as first recommended by Dr Henry in his 2009 review of Australia's Future Tax System. To avoid more "bracket creep" this should only be done at the same time as income tax thresholds are raised, leading to a fairer super system for low and middle income earners.

The issue is then at what level to set the rebate. Our modelling shows that if the rebate is set at 15% and all earnings are exempt, then tax receipts by Government would be slightly higher than under the Standard system. In other words there would be NO tax concessions when compared to this Standard.

The following graph shows the additional tax receipts by Government (net of Age Pension payments) for people on a range of earnings (expressed as multiple of Average Weekly Earnings) are greater under this proposal than under the Standard benchmark.



Our analysis assumes Australians save enough to retire on a reasonable pension. The appropriate benchmark for this is a pension equal to 60-70% of pre-retirement, after-tax income. This benchmark should not be related to average or median incomes but to the individual's actual pre-retirement income.

SMSF Owners point out that apart from being more efficient and fairer, other advantages of this proposal are:

- Caps on contribution will not need to be raised, whereas if the current system is retained the annual contribution cap must be raised to \$80,000 for people to reach a benchmark pension;
- By removing all taxation burden from super funds, administrative costs savings would have an additional dramatic compounding effect on super savings; and
- This proposal does not require complex grandfathering to avoid retrospectively taxing retirees who have saved in good faith under the current system.

Contact:

Duncan Fairweather  
 Executive Director  
 SMSF Owners' Alliance  
[dfairweather@smsfoa.org.au](mailto:dfairweather@smsfoa.org.au)  
 0412 256 200