SMSFOA Members' Newsletter

#1 /2016

Dear Members

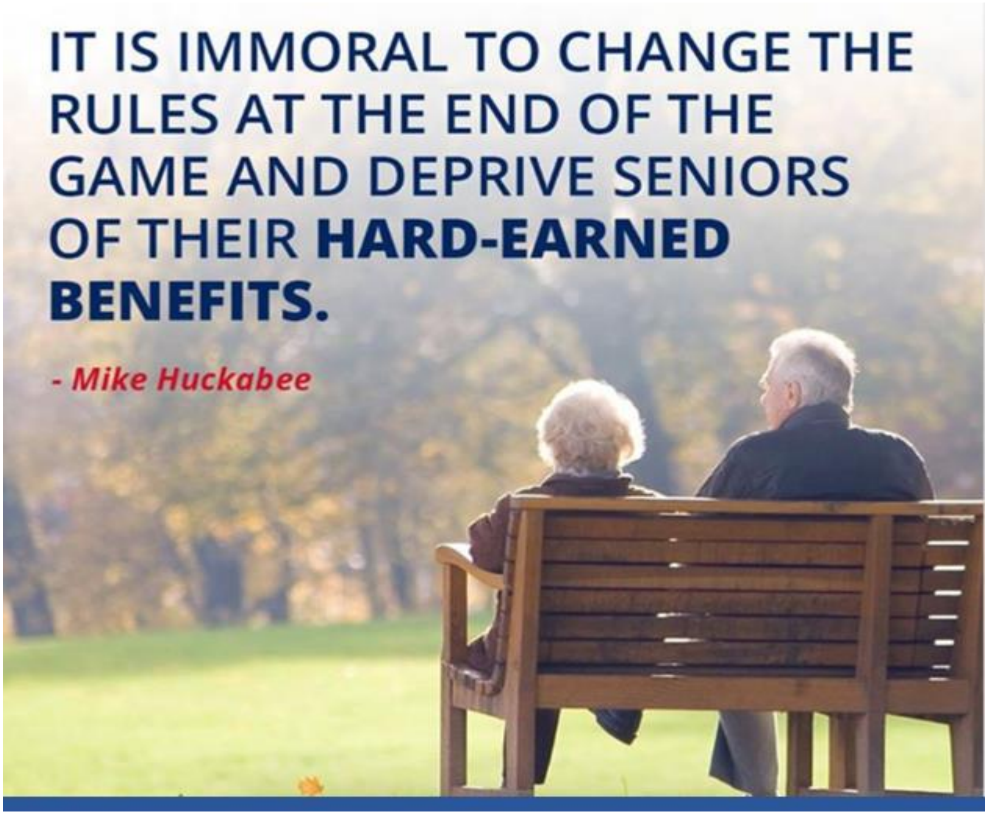
Welcome to the first SMSF Owners newsletter for 2016 – a year in which the taxation of superannuation will be in sharp focus in the lead-up to the federal election expected around September.

The policy Labor will take to the election is known – a 15% tax on superannuation earnings in the retirement phase above $75,000. The Greens' policy is for contributions to be taxed on a sliding scale of up to 32%.

The Coalition Government has not yet decided its position. An indication of the options the Government is considering is likely to be indicated in the green paper expected soon as part of the Tax White Paper process.

SMSF Owners will be stepping up our advocacy effort this year to ensure that any changes to superannuation taxation actually improve the system and, importantly, are not retrospective.

Any retrospective, detrimental element to super tax policy will be highly unfair to people who have saved for retirement under the existing rules and ordered their lives on an expected retirement income.



Thanks to SMSF Owners member Barry Moule for sending us this message from US Republican Presidential candidate Mike Huckabee – just as relevant here as it is in America. Pass it on.

In this election year we will be sending regular bulletins to federal MPs and Senators to remind them that one million of their constituents have an important stake in this issue.

We urge all members of SMSF Owners to make contact with their federal MP – particularly Coalition Members and Senators – and send them a strong message. More on this campaign in our next newsletter.

SMSF Owners' put better tax plan to the government

Our first action of the year was to write to the Treasurer, Scott Morrison, and the Assistant Treasurer, Kelly O'Dwyer, to present to them what we think is the best option for changes to the taxation of superannuation.

This letter follows on from our submission last year to the Taxation White Paper Taskforce.

While some political parties, interest groups and think tanks reckon the solution is to apply a new tax on earnings in retirement, we think there is a much better option.

The tax on contributions should be changed. Instead of giving a concession on contributions, the government should give a rebate on income tax. This should be accompanied by a flattening of Australia's highly 'progressive' income tax rates.

This could be done while removing the earnings tax on retirement savings in the accumulation phase with neutral impact on the budget.

Our proposal takes a step further the tax rebate idea proposed by Ken Henry in his review of Australia's tax system and since supported by others including KPMG and PWC. It would make the system fair and far more efficient.

Our letter to Scott Morrison and Kelly O'Dwyer is on the Advocacy page of our website. Here's our media release:

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."

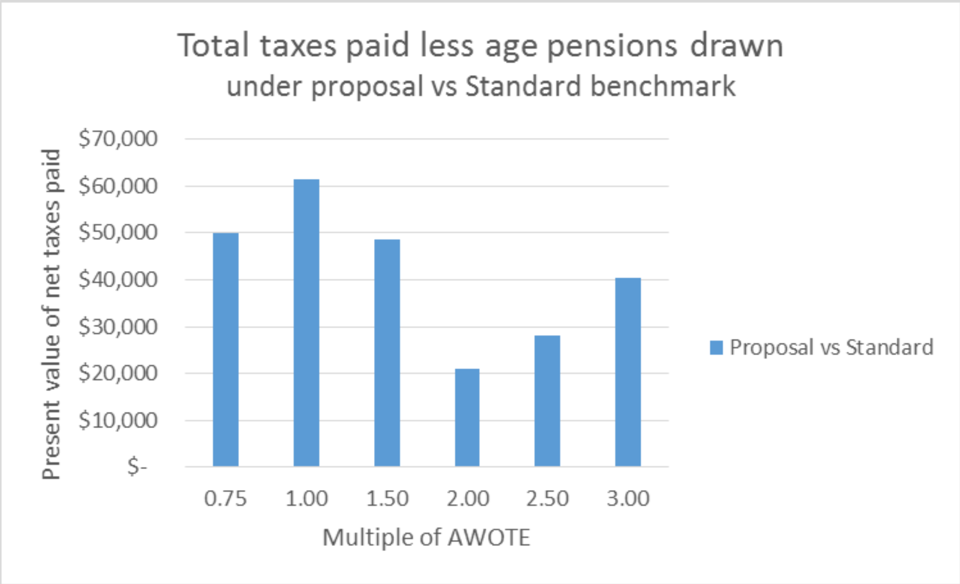
SMSF Owners says that we used to have a super system which is an international Standard, generally recognised as the ideal benchmark for an efficient savings system. Under this Standard, contributions and earnings are tax exempt while the final pension is taxed (also referred to as EET). However, because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

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Our letter to the Treasurer and Assistant Treasurer was followed up by the Australian Financial Review which ran a prominent story on 20 January in which our Research Director, Malcolm Clyde, explained how it would work. Focus on the story not the headline!

FINANCIAL REVIEW

Jan 19 2016 at 6:26 PM

SMSF Owners' Alliance backs plan for rich to pay more tax on super contributions

by **Sally Rose**

Tax on investment earnings from superannuation could be abolished without any impact on the public purse, if done in combination with moving to a progressive system for taxing contributions that would also be fairer for low and middle income earners.

That is the view of the SMSF Owners' Alliance, which has supported a version of a proposal before government to replace the flat 15 per cent tax on super contributions with a progressive tax.

Under SMSFOA's plan, money paid into super would be taxed at a discount of 15 per cent to the individual's applicable marginal income tax rate, a suggestion made in a proposal unveiled by accounting and advisory firm Deloitte in October.

"However, the Deloitte proposal did not include dropping the tax on earnings in the accumulation phase so would actually help raise more money for the government, which we don't think should be the focus of super tax reforms," SMSFOA head of research Malcolm Clyde said.

"Our plan would be revenue neutral for the government, while improving the fairness of the distribution of tax concessions, and encouraging people to save more for a self-funded retirement."

The lobby group for do-it-yourself super fund owners outlined its plan in a letter sent to Treasurer Scott Morrison and Assistant Treasurer Kelly O'Dwyer this week.

Internal modelling indicated the cost to the government, from the expense of the age pension and forgone revenue from super tax concessions combined, would be broadly unchanged under the plan but the distribution of benefits more smoothly distributed across taxpayers in different income tax brackets.

A criticism of the current regime is that the top 10 per cent of income earners receive more than 30 per cent of superannuation tax concessions, which Treasury modelling indicates costs the budget between $10 billion and $30 billion a year.

The government's 2010 tax review, led by former Treasury Secretary Ken Henry, recommended a progressive tax on contributions at a discount of 20 per cent but shied away from scrapping the tax on earnings.

Last week the Financial Services Council, which represents retail wealth managers, released PricewaterhouseCoopers modelling to support replacing the flat 15 per cent tax on contributions with Mr Henry's suggestion for a progressive contributions tax at a 20 per cent discount - in combination with lifting the mandatory contribution rate to 12 per cent sooner rather than later.

SMSFOA's support for a progressive tax on super contributions, which would result in most of their stakeholders paying a higher rate of contributions tax, is conditional on it being done in combination with abolishing all tax on investment earnings on super.

Currently, investment earnings on super are tax-free in the retirement phase but taxed at up to 15 per cent during the accumulation phase.

Another caveat on SMSFOA's support for a progressive contributions tax is that the threshold at which income earners enter the top marginal income tax rate of 45 per cent must be lifted.

The Association of Superannuation Funds of Australia, a lobby group for large super funds, has warned that taxing super more like wages could accelerate "bracket creep" for 1.3 million taxpayers.

SMSFOA has also called for more flexibility on the annual $35,000 concessional contributions cap.

"The most sensible solution would be to allow people to roll forward their allowance under the annual cap to future years," Mr Clyde said.

He said SMSFOA's proposal would also remove a need to lift the annual contribution cap.

"In lieu of the proposed reforms to scrap the tax on earnings and move to taxing contributions at a 15 per cent discount the annual contributions cap, or equivalent under a lifetime cap, needs to be lifted to $80,000."

This story also appeared on The Sydney Morning Herald and The Age websites.

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