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OPINION

Super is for retirees, not for balancing budgets

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In Paris we would be burning tyres in the streets. Anarchy has never looked so appealing.

In more than 30 years in the superannuation industry I have only once before been as surprised by a policy announcement by a government. That was in 2006 when Peter Costello announced the opportunity for a once-only contribution of up to $1 million into an individual superannuation account.

There is an interesting symmetry here, or perhaps more correctly, an asymmetry. The Coalition in 2006 encouraged aspirational Australians to build a comfortable nest egg for their retirement. Now in 2016 we have a Coalition government introducing a retrospective tax that penalises those that trusted government policy and did as encouraged, built their retirement savings through superannuation.

While there is a component of personal affront, my concern is more about the unprincipled action of retrospective legislation and the lack of trust embodied in a Coalition, or for that matter any government, which reverses policy to effectively penalise those who trusted the system.

Malcolm Turnbull has shown a level of political desperation in announcing a policy, which as a lawyer, and a good one at that, he must know is fundamentally flawed.

Bill Shorten has seized the high ground by refusing to support legislation that is aligned with his political views but goes against the principles of fairness and consistency.

This is purely political expediency by a Turnbull government that has decided that the 4 per cent of the population disenfranchised by this policy would have little impact on its electoral support.

There are so many problems with this legislation it is hard to know where to begin.

Let's start with the Costello policy of 2006. Simple maths will tell you that just the $1m invested in 2006 at average returns will now be approaching $2m. But $1.6m is the limit. A total disregard for past policy.

Now let's move to the cap on lifetime non-concessional contributions at $500,000. Back dated for nine years! Australians should be free to build whatever retirement funds they believe suits their lifestyle as long as the taxpayer doesn't unfairly subsidise this. Again a total disregard for aspirational Australians who work and save for their retirement. I might add self-funded retirements.

A cap on non-concessional contributions penalises those who have received poor investment advice, or who have made poor investment decisions, or who are just the subject of poor timing in their contributions and investment decisions. Investment professionals will tell you that investment timing is as important to investment returns as decisions around asset allocation and stock selection.

Now it is reasonable to require that any tax concessions for superannuation are fair and equitable rather than allowing a few wealthy individuals to further expand their wealth.

We need to go back to basic principles. There is a principle of mutuality operating here. Imagine your own personal bank account, investment fund, into which you make deposits, contributions, while you are working and from which you make withdrawals, pension payments, once you have retired. Naturally income would be earned on the balance and after tax paid, would add to the amount available for future withdrawals.

Examining this mutuality principle more closely raises three questions.

Why are you taxed on your after-tax deposits, contributions, just because these are within a prescribed superannuation framework? You would not be taxed on any deposits, investments, outside of super.

What level of tax should be levied on earnings? Arguably this should be lower inside a superannuation framework than outside to encourage you to lock away your funds for decades. The current 15 per cent rate during the accumulation phase looks reasonable and is probably a discount to that on an investment portfolio outside superannuation.

Why should you pay any tax at all on your withdrawals, pension payments, from your account given that you are withdrawing a mixture of your capital and taxed earnings?

A fairer structure would be along the lines proposed by economist Chris Richardson, namely a tax rebate of say 15 per cent on your marginal income tax rate applied to arrive at a tax rate on contributions, but only concessional contributions. After the rebate, lower-income earners on 19 per cent marginal tax would pay 4 per cent and higher income earners on a 45 per cent marginal tax rate would pay 30 per cent tax on superannuation contributions. Richardson also proposed that earners below the tax-free threshold would receive a payment from the government of 15c in the dollar.

Government should allow, if not encourage, Australians to aspire, particularly in retirement, rather than just get by. More self-funded retirees able to spend in their retirement will benefit all Australians.

The solution is simple. Do not cap contributions made over a lifetime. Do not tax contributions made from after-tax income. Do not tax retirement benefits, as it is your capital and after-tax money that you are withdrawing. But do tax income and for those contributions made from pre-tax income, flatten the benefit across all taxpayers by introducing a rebate of say 15 per cent as suggested by Richardson.

Oh, and politicians should remember that this money has been put aside by hard working Australians for their retirement and although it is a large pool of money, it is not a potential source of tax revenue to balance government budgets.

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