Submission to the Senate Economics Legislation Committee

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Submission to the inquiry into the Better Targeted Superannuation Concessions and Other Measures Bill

The Centre for Independent Studies (CIS) welcomes the opportunity to provide a submission to the Senate Economics Legislation Committee in relation to its inquiry into the Better Targeted Superannuation Concessions and Other Measures Bill.

The CIS is a leading independent public policy think tank in Australasia. Founded in 1976, its work is driven by a commitment to the principles of a free and open society. The CIS is independent and non-partisan in both its funding and research, does no commissioned research nor takes any government money to support its public policy work.

As a Senior Fellow in the economics program at the CIS, I undertake research into a wide range of public finance issues and regularly comment in the media on taxation and other budget issues. Before joining the CIS, I was a senior official with the New South Wales Treasury and in that role was responsible for advising the state government on taxation policy and federal/state financial relations. Prior to that I was a senior official with the Australian Treasury in Canberra and both the World Bank and the International Monetary Fund in Washington, DC.

My most recent research paper for CIS was *Superannuation Tax: Why the proposed total balance threshold should be shelved* (CIS Policy Paper 51, July 2023). I attach the text of this publication as my submission to the inquiry. Here I summarise some of the the main points:

- The fundamental stated justification for the proposed measure is based on flawed notions of tax expenditure and equity.
- The new tax is likely to be met with strong tax avoidance responses that will severely limit the amount of extra revenue, at least in the medium term.
- The new tax is retrospective in the sense that it effectively denies the validity of past contribution rules that enabled large balances to accumulate. For this reason, existing large balances should be grandfathered.
- The absence of indexation creates a new form of bracket creep that will ensure many more super fund members are affected by the new tax. Indexation should be included in the design by expressing the total balance threshold as a fixed multiple of the existing Transfer Balance Cap.
- The design of the new tax for the first time includes unrealised capital gains in the calculation of taxable earnings. The tax should only be applied to earnings inside super funds using the same definition of earnings as is currently used for tax purposes.
- The new tax also denies the existing one-third discount for capital gains on assets held for at least 12 months. This, and the taxation of unrealised gains, mean the effective tax burden is

higher than the 15% tax currently applied to earnings inside funds. It is disingenuous to equate the two.

- Recognising this, if the tax is to be applied in the manner proposed, it should be at a lower rate than 15% — say 10%.
- Unfunded defined benefit schemes should not be subject to the tax, as benefits are already taxed at full marginal rates; unlike the benefits from funded and accumulation schemes.
- The capital value of defined benefit pensions to be included in the total superannuation balance should be recalculated each year under actuarially determined rules, to recognise the impact of age and life expectancy on capital value.

I would be happy to expand on the points in the attached submission, or to provide further information, if this would assist the Committee in its inquiry.

Yours sincerely,

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