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23 December 2011

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Dr Grant

Inquiry into the Mineral Resource Rent Tax Bill 2011 and related bills

CPA Australia represents the diverse interests of more than 132,000 members in over 110 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We welcome the opportunity to provide our views to the above inquiry.

This submission has been prepared with the assistance of CPA Australia's Retirement Savings Centre of Excellence (CoE). The CoE is a member based committee that includes leading experts from the superannuation industry. Our superannuation experts work across major components of the superannuation industry ranging from some of the largest industry, corporate and retail funds through to self-managed superannuation funds.

CPA Australia maintains a neutral position with regard to the Mineral Resources Rent Tax (MRRT) and Petroleum Resource Rent Tax and thus do not have any comments to provide on their related bills. This submission instead focuses on the superannuation aspects of the bills package, namely:

- The Superannuation Guarantee (Administration) Amendment Bill 2011; and
- Schedules 4 and 5 of the Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill, 2011

Superannuation Guarantee (Administration) Amendment Bill 2011

CPA Australia supports the increase in the compulsory superannuation guarantee (SG) from 9% to 12%. This is an important measure that will help to boost the future retirement savings of many Australians.

Ultimately, the compulsory SG is part of an employee's total remuneration. We believe the gradual increase of 0.25% pa for two years and then 0.5% pa over five years should be able to be absorbed into future wage increases with minimal impost on employers.

We also strongly support the amendment to remove the upper age limit for the payment of SG contributions. We believe this will provide a timely boost to the retirement savings of older workers who continue in, or move into and out of the workforce after traditional retirement age allowing them to add to their superannuation while they are working. This greater flexibility may also encourage greater workforce participation by older Australians.

However, we are concerned about the inconsistencies and inequities that still exist in that older Australians cannot make other non-SG contributions to superannuation after age 75 even if they are still working. Given the shortfall in retirement savings for people close to or in retirement now, who haven't enjoyed a full working life of SG contributions, there is no reason why older Australians should not be able to continue building their superannuation, irrespective of the contribution type, while they continue in the workforce. As such, we suggest this measure be extended to remove the upper age limit for all contribution types by making the necessary amendments to SIS regulation 7.04(1).

We are also concerned about the coverage of the SG scheme due to the continuation of the monthly earnings threshold.

The SG earnings threshold of $450 per month was introduced when SG commenced at a level of three per cent of salary. Since then the SG level has increased to nine per cent and the workforce has become increasingly casualised.

With the proposed increase of the SG to 12 per cent, more people are at risk of being excluded from the SG system and not having access to adequate retirement savings. For example, an individual working two or three casual jobs, each earning just under the $450 threshold each month, could be missing out on SG contributions of $800 to $1200 each year.

To boost retirement savings, particularly for people with intermittent or casual work patterns, we suggest the SG threshold should be abolished. However, we also recognise the administrative burden that may be experienced by employers when meeting their SG and choice of fund obligations for casual or itinerant employees. As such, we would be supportive of any exclusion for one-off or short-term employment situations. One solution would be for employers to only be permitted to apply the $450 threshold once for a single month for an individual employee. That is, it would generally only be utilised in their first month of employment after which if their employment continues, SG should be paid.

Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill, 2011

Low-income superannuation contribution

CPA Australia strongly supports the introduction of the low income superannuation contribution (LISC). We believe the introduction of the LISC from 1 July 2012 is of greater significance in the short-term than the increase in the SG as it will provide an immediate boost to the retirement savings of low income earners in comparison to the gradual increase of the SG.

Currently, low income earners in the 15% marginal tax rate (MTR) bracket and below receive no tax concessions on their superannuation contributions or may actually pay more tax on their concessional contributions than on their normal income and are worse off than if the law allowed them to receive their compulsory superannuation guarantee contributions in the hand. This measure will effectively rebate the contributions tax for low income earners providing a much needed boost to their retirement savings and greater incentive to use superannuation as a retirement savings vehicle.

The proposed $500 maximum payment correlates to a return of the 15% contributions tax on the compulsory 9% SG contribution for individuals earning up to $37,000. That is, the LISC measure will provide a tax concession to individuals in the 15% MTR bracket or below.

However, there will be no provision for indexing or adjusting the maximum in line with any adjustments to the MTR thresholds. Given it is likely there will be future changes to the MTR thresholds, it would be fair and equitable to link the maximum LISC payment to the upper threshold of the 15% MTR bracket. This would ensure this concession remains available to all individuals in the 15% tax bracket, as we believe the policy intent to be.

We also suggest the maximum LISC payment should be linked to the future increases in the SG, such as the increase from 9% to 12%, to ensure low income earners continue to get the full concession on their compulsory superannuation contributions.

In summary, we suggest the following refinements to the measure to ensure effective coverage is provided, and continues to be provided to all low-income earners:

- The maximum LISC payment is linked to future increases in the 15% MTR upper threshold

- The maximum LISC payment is linked to future increases in the compulsory Superannuation Guarantee.

Deductions of employer contributions to superannuation funds

In line with our comments above regarding the removal of the upper age limit for superannuation contributions, we suggest this provision be amended to allow the deductibility of all employer contributions irrespective of the superannuant's age.

Finally, notwithstanding the current constraints on Government revenue, we believe these measures are of sufficient significance considering the well recognised need to boost retirement savings that they should be delinked from the MRRT Bills and proceed in their own right irrespective of the fate of the MRRT.

If you have any questions regarding the comments, please do not hesitate to contact me on 02 6267 8552.

Yours faithfully

Michael Davison
Senior Policy Adviser - Superannuation