IPA INSTITUTE OF PUBLIC ACCOUNTANTS

16 November 2016

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

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

Inquiry into Superannuation (Excess Transfer Balance Tax) Imposition Bill 2016 and Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016

The IPA welcomes the opportunity to provide a submission in relation to the Inquiry into Superannuation (Excess Transfer Balance Tax) Imposition Bill 2016 and Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016.

The IPA is a professional organisation for accountants who are recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members and students in Australia and in more than 80 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. More than 75 per cent of our members work in or with small business and SMEs and are recognised as the trusted advisers to these sectors.

Given the start date is 1 July 2017 we understand the pressure is on the Government to finalise the legislation in order to give all stakeholders the ability to implement any necessary changes by this deadline. It also allows SMSF trustees through their advisers to adjust their superannuation strategies if need me before the 1st July 2017 start date. Whilst we appreciate that the time clock is ticking, all the superannuation reform measures announced are significant in nature and

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require adequate consultation time. One of our main concerns was the consultation period covering the superannuation reforms was far too short to enable adequate consideration and responses. This has the potential to lead to poor legislative outcomes and the introduction of unnecessary legislative complexity. The Government has indicated that extensive confidential consultation had taken place prior to the superannuation reforms announcements on budget night.

Due to the fiscal budget challenges ahead the Government needs to achieve budgetary savings and this seems to be driving force behind the rush to expedite legislation through Parliament. As superannuation changes impact people's retirement plans, the Government also wanted to restore clarity and certainty especially as there has been much debate over the proposed changes since they were announced on budget night. In an environment that is becoming increasingly reliant on Australians to self-fund their retirement, it is vital that we have certainty and confidence in our superannuation system. Finalising the legislative changes will provide greater certainty for all superannuation members and their advisers.

Our two recent submissions to Treasury covering the superannuation reform package as announced on budget night are attached. These submissions provide our views on the proposed changes.

A summary of our primary concerns as detailed in our submissions in relation to the inquiry into the abovementioned Bills is as follows:

Transfer Cap

The administration path chosen to introduce a balance cap is unduly complicated and alternative systems have not been examined. One of the secondary objectives drafted of the superannuation system is to make the superannuation system simple and therefore, any proposed changes need to be judged on this basis. Whilst it has been emphasised that only a small minority will be directly impacted by the transfer balance cap, adding considerable complexity to the superannuation system with its ongoing administration will need to be borne by all super fund members. To achieve cost efficiencies, a regulatory environment that is not overly complex is required. The proposed transfer cap is adding more complexity rather than making the system less convoluted. The demise of the reasonable benefits system back in 2006, should serve as a reminder of the administrative issues a cap introduces. The Government needs to keep front of mind the disproportionate cost imposed on all trustees relative to the number of individuals ultimately impacted by the proposed changes.

There are significant structural, transitional and implementation issues associated with implementation of this policy measure. Those who have been around for some years, remember the reasonable benefits limit system which was removed on 30 June 2006. It was well noted at the time that there were many reporting problems not envisaged when the law was developed. The ATO acknowledge at the time that the overall effort required to administer reasonable benefits (RBL) limits appeared disproportionate to the number of individuals ultimately affected by the rules.

The transfer balance cap provisions seem to be heading in the same direction as the RBL system and we need to assess whether there are simpler alternative ways of achieving the government's objectives of restricting access to the concessions for super. The policy settings the Government has set, preclude looking at alternative models such as leaving existing systems intact and dealing with limiting the tax concessions when the super benefits are paid to recipients. The benefit of this model, whilst not devoid of its own issues, allows existing tax structures for superannuation funds and pensions to continue unaffected without overlaying complex arrangements upon the system.

There is also the issue of how relevant information from different funds and accounts will be drawn together so adjustments can be made to balances to comply with the proposed transfer balance cap, and the new limits on non-concessional contributions. Accountants, financial advisers, trustees, superfunds and regulators will need come to terms with complex rules associated with the transfer cap provisions.

National Office
Level 6, 555 Lonsdale Street, Melbourne VIC 3000 Australia | GPO Box 1637 Melbourne VIC 3001 Australia
t +61 3 8665 3100 **f** +61 3 8665 3130 **e** natoffice@publicaccountant.org.au **w** publicaccountants.org.au ABN 81 004 130 643

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Concessional Superannuation contributions

IPA does not support the reduction of the contribution caps to $25,000 and in particular, the reduction of the current cap of $35,000 for individuals aged over 50 years of age. People aged over 50 should be encouraged to make further superannuation contributions especially when they have the capacity to do so to address any super balance shortfall.

The situation is further exacerbated as the Government has also announce the deferral of the proposed catch up measure until 1 July 2018, which effectively means the first catch up will not be available until the 2019/20 financial year. The deferral was a budgetary decision to partially offset the cost of re-introducing an annual non-concessional contributions cap. The current annual concessional contribution cap for over-50s which is $35,000 is less than a third of what the cap was 10 years ago. The May 2010 Henry Tax Review supported a higher contribution cap for Australians aged 50 or over.

The IPA welcomes the opportunity to discuss further any of the matters we have put forward in our submission. Please address all further enquires to myself ([redacted]

Yours sincerely,

Tony Greco FIPA

General Manager Technical Policy

Institute of Public Accountants