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Division Head  
Retirement Income Policy Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [superannuationobjective@treasury.gov.au](mailto:superannuationobjective@treasury.gov.au)

### **Superannuation Reform Package – First Tranche**

The IPA welcomes the opportunity to provide a submission on the exposure draft legislation containing the first tranche of the Government's Superannuation Reform Package announced in the 2016-17 Budget. This submission will respond to the following exposure draft legislation: Superannuation (Objective) Bill 2016; Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016; and Treasury Laws Amendment (Fair and Sustainable Superannuation) Regulation 2016. These Bills are proposed to implement the following five superannuation measures announced in the 2016-17 Budget:

- the objective of superannuation;
- tax deductions for personal superannuation contributions;
- improve superannuation balances of low income spouses;
- introduce a Low Income Superannuation Tax Offset (LISTO); and,
- harmonising contribution rules for those aged 65-75.

**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](mailto:natoffice@publicaccountant.org.au) **w** [publicaccountants.org.au](http://publicaccountants.org.au) ABN 81 004 130 643



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.

Our retirement savings system which encompasses superannuation has many good features explaining why it ranks well internationally. Australia's superannuation system has been ranked as the third best in the world by the Mercer Global Pension Index, behind only Denmark and the Netherlands, against the three features of adequacy, sustainability and integrity. Whilst our Superannuation is still relatively young it is already playing a significant role in our nation's prosperity. Whilst it ranks highly, it has some features which are less than ideal. The superannuation measures contained in the first tranche of the superannuation reforms address some of these short comings. The Government should be commended for putting forward a number of contribution simplification measures and enshrining a primary objective of superannuation into legislation.

### **Enshrining the primary objective of the superannuation system in legislation**

The recent Financial System Inquiry (FSI) has recommended some important changes to improve some of the anomalies in our retirement savings system which encompasses superannuation. One of the recommendations of the FSI, is to develop and introduce legislation to enshrine the objective of the superannuation system. The Government's decision to enshrine the primary objective of the superannuation system in draft legislation is an important positive announcement in the evolution of our superannuation system. It would have been less than ideal if the proposed significant budget measures to superannuation went ahead without firstly enshrining the primary objective of the superannuation system beforehand. A simple, transparent objective for superannuation can act as a cornerstone for good policy for the superannuation system and protect it from constant tinkering and

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budgetary raids.

These proposed changes can be evaluated in the light of the objective of the superannuation system. The main benefit for enshrining the primary objective of the superannuation system is to clarify policy intent, and simplify future policy decisions and their implementation. Any reform policy proposals need to be consistent with achieving the agreed objectives of our superannuation system. An agreed objective will provide a way in which competing proposals can be measured and a framework for evaluating the fairness, adequacy and sustainability of the superannuation system. An agreed objective should lead to more stability in policy in the long run and bring an end to ad hoc policy changes that have been driven by budgetary and election cycles.

As stated in our April 2016 submission on the objective of superannuation, we agreed that an updated legislated objective will serve as a guide to future reforms assisting policy-makers, regulators, industry and the community about superannuation's fundamental purpose. Our submission supported a legislated primary objective supplemented by a number of subsidiary objectives. A single primary objective cannot encompass all aspects of the purpose and attributes of the superannuation system. We are pleased to see the Government proceeding along this basis.

Specific comments in relation to enshrining the primary objective of the superannuation system in legislation as follows:

- We agree that superannuation should not be allowed to be used for unlimited wealth accumulation and estate planning
- One aspect we have concerns with in the current draft definition is the failure to include any mention of retirement adequacy in the primary objectives. Whilst we acknowledge the concept of adequacy is problematic as it is entirely dependent on individual circumstances, its exclusion however in our opinion remains a considerable oversight in the draft



objective. Our superannuation system should be about encouraging the principle of self-funding retirement to provide a comfortable lifestyle. The primary objective “to provide income in retirement to substitute or supplement the age pension” places the focus of superannuation entirely on the age pension instead of the two other pillars of our retirement system namely superannuation and other voluntary savings.

- We strongly support the inclusion as one of the subsidiary objectives, the management of risks in retirement to help individuals manage financial risks in retirement as recommended by FSI. One of the deficiencies of our current superannuation system is the payout stage. This stage requires Government legislative changes to improve the ability of individuals to help manage longevity risk. The FSI enquiry recommended superannuation trustees to pre-select a comprehensive income product for members' retirement. Details of the pre-selected option would be communicated to the member during their working life. At retirement, the member would either give their authority to commence the pre-selected option or elect to take their benefits in another way. The pre-selected option should be a comprehensive income product for retirement (CIPR) that has minimum features determined by Government. These features should include a regular and stable income stream, longevity risk management and flexibility. Regulatory impediments to developing retirement income products, which include tax policy settings, need to be removed.
- One of the subsidiary objectives proposed looks at simplicity, efficiency and safeguards. We support this wholeheartedly. Our superannuation system is very complex mainly due to the number of electable options and decision-making choices that can or should be made by an individual. We subscribe to the view that complexity is less appropriate for a compulsory system, as it adds to costs and favours sophisticated and well informed investors. Ideally our system should be simple to understand, so simple that an individual can interact without requiring assistance. Some of the simplification measures announced as part of the superannuation reform in the budget are a



welcome step in the right direction. The removal of the work test for individuals aged between 65 and 75 and allowing anyone up to aged 75 to deduct personal super contributions in particular are two prime examples of simplification.

## **Deducting Personal Contributions**

This measure removes the requirement of the income tax law that an individual must earn less than 10 per cent of their income from employment-related activities for the individual to be able to deduct a personal contribution to superannuation making. The removal of the 10% rule improves the flexibility and fairness of the superannuation system so that more individuals can make personal contributions to superannuation as concessional contributions.

Currently, individuals are not able to deduct personal contributions for an income year and have them treated as concessional contributions unless the individual satisfied a number of requirements such as the 10% rule. The 10% rule requires, less than 10 % of the sum of the individual's assessable income, reportable fringe benefits total and reportable employer superannuation contributions were attributable to employment or similar activities (section 290-160). This restriction disadvantaged individuals who did not work for employers that allowed them to make salary sacrificed concessional superannuation contributions or those that were substantially self-employed but who received 10 % or more of their income from employment.

This ensures that individuals receiving employment income are not dependent on whether their employers offer salary sacrifice arrangements should they wish to make contributions to their superannuation from, effectively, their pre-tax income. We have a cap on concessional contributions and an individual's circumstances should not preclude access to this entitlement. The IPA has long advocated for the removal of this outdated rule and support its abolition.

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## **Tax offsets for spouse contributions**

We support the amendments to the tax law to encourage individuals to make superannuation contributions for their low income spouses. This is achieved by increasing the amount of income an individual's spouse can earn before the individual ceases to be entitled to a tax offset for making superannuation contributions on behalf of their spouse.

The proposal increases the amount of income an individual's spouse may earn before the individual ceases to be entitled to a tax offset when they make superannuation contributions on behalf of their spouse.

The threshold for the total of the spouse's assessable income, reportable fringe benefits amounts, and reportable employer superannuation contributions (total spouse income) increases from \$13,800 as a result of the amendments to \$40,000.

## **Low income superannuation tax offset**

This proposed change extends the Low Income Super Contribution (LISC) beyond its legislated expiry date of June 2017. The only major change is that it will be renamed as the Low Income Superannuation Tax Offset (LISTO) and commences on 1<sup>st</sup> July 2017. We support this measure on equity and fairness grounds.

The LISC compensates low income individuals for the tax that concessional contributions to their superannuation bear in the hands of their superannuation fund or retirement saving account provider. Concessional contributions are generally 'before tax' contributions that include an employer's superannuation guarantee contributions, contributions made under a salary sacrifice arrangement and an individual's personal contributions that are deductible. The LISTO seeks to effectively return the tax paid on concessional contributions by a person's superannuation fund or retirement savings account provider. Low income earners are defined as individuals with an adjusted taxable income of \$37,000 or less. The



maximum amount payable is \$500 per year for each eligible individual. The LISTO will normally be paid to a superannuation account of an individual.

**Harmonising contribution acceptance rules based on age (removal of work test)**

Another simplification measure we support and commend the Government for making is the removal of the work test. Removing the complexities associated with applying the work test for individuals aged 65 to 75 will simplify and improve the flexibility of the superannuation system.

An individual aged 65 or over but under 75 must currently meet a work test before their superannuation fund can accept voluntary contributions from them.

This proposed change effectively means that individuals aged 65 or above, but under 75, are treated in the same way as individuals aged below 65.

On the 15<sup>th</sup> September 2016, the Government made further announcements in relation to Superannuation Reform Package announced in the 2016-17 Budget. We understand that the removal of the work test may be one of the simplification measures scrapped in favour of not proceeding with the introduction of a backdated lifetime cap of \$500,000 on non-concessional contributions. We are disappointed that the removal of the non- concessional cap has been traded off for the abolishment of the contribution work test for those aged 65 to 75.

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 signature block]

Yours sincerely,

Tony Greco FIPA  
General Manager Technical Policy  
Institute of Public Accountants

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