



Inquiry into MRRT and Other Measures Bill 2013

November 2013

**AIST Submission to Senate Economics
Legislation Committee**

MRRT and related measures Inquiry



AIST

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose mission is to promote and protect the interests of Australia's \$500 billion not-for-profit superannuation sector. AIST's membership includes the trustee directors and staff of industry, corporate and public-sector funds, who manage the superannuation accounts of nearly two-thirds of the Australian workforce.

As the principal advocate and peak representative body for the not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training, consulting services and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

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1 Executive summary

AIST is pleased to make this written submission to the Senate Economics Legislation Committee.

While the subject of the Inquiry is the entirety of the proposed measures in the Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 (“MRRT”), AIST makes this submission in relation to two vital parts of this package:

- AIST submits that the retention of a Low Income Contribution Scheme (LISC) is vital in reflecting Australia’s changing work patterns, where part time and casual employment is increasing.
- While AIST accepts with reluctance the need to delay the increase in the Superannuation Guarantee to 12%, we will continue to maintain a watching brief on the timetable for increasing the Superannuation Guarantee.

AIST recommends that the decision to tax lower income earners on their superannuation contributions be removed from this package. Without the Low Income Superannuation Contribution scheme, low income earners do not qualify for any tax breaks on compulsory superannuation contributions, as do other working Australians.

AIST strongly recommends that a Low Income Superannuation Contribution scheme be adopted by the Government:

- LISC provides more equitable arrangements for over 30% of the total Australian workforce and 50% of the Australian female workforce.
- LISC recognises the changing pattern of Australia’s workforce, where greater demands for more flexible work arrangements need to be reinforced with policies which recognise part time (lower paid) work. According to The Treasury¹:
 - The labour market has become substantially more flexible over the last 40 years. The number of part-time jobs shows this. Forty years ago, around one in ten employees worked part time. Now over a quarter of Australian workers work part time.
 - Part-time workers often are women and the former non-working parents in both single-parent families and dual-income families.
 - Australian workplaces, and the Australian workforce, are likely to be very different in the future. There will be a large increase in the number of older workers, and quite possibly, a strong demand for part time or flexible working hours.

¹ <http://demographics.treasury.gov.au/content/discussion.asp?NavID=6>

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- Compulsory superannuation is the fundamental core to the retirement savings of millions of Australians and the LISC would more equitably underpin the Government's commitment to Australia's three-pillar retirement system, which includes commitment to a compulsory system of retirement savings through superannuation.

With reluctance, AIST understands the need to delay the increase in the Superannuation Guarantee to 12%. Any delay in the Superannuation Guarantee impacts on the Government's ability to provide an adequate and sustainable superannuation system. We are encouraged that this increase is to eventually proceed, however we recognise that the tax concession required to enable this must be funded and support a short delay. AIST will continue to maintain a watching brief on the timetable for increasing the Superannuation Guarantee to 12%.

Our submission on this exposure draft is limited to these two measures.

2 Recommendations

2.1 Background

AIST has consistently pursued the following principles in all submissions:

- Equity
- Fairness
- Transparency
- Continuing to advance an adequate and sustainable Australian superannuation system.

This submission examines how both the enshrinement of LISC and the continued support for increased compulsory superannuation savings supports these principles.

2.2 Linkage to the MRRT

From the date that *Stronger, Fairer, Simpler: A tax plan for our future* was issued, the tax concessions that were required to be funded in order to allow the SG to be increased to 12% was linked to the Minerals Resources Rents Tax (MRRT).

We note that it is also the Government's policy that the MRRT be repealed, together with the announced policy that there be no unexpected detrimental changes to superannuation.

AIST acknowledges that if consideration is given to repeal the MRRT, it is necessary to remove or alter measures that were associated with it. We note that from the time that they were announced, the measures to increase the SG to 12% and to implement the LISC were linked to the MRRT by the previous Government. We consider that, due to the commitment by the Government to remove the MRRT, this would not be considered an 'unexpected' change.

At the time, AIST opposed the linking of these measures. We recognised that in ordinary circumstances, the revenue from a taxation measure contributes to consolidated revenue, and expenditure measures are rarely included as part of a package with a revenue measure. In our submissions, we pointed to the issues associated with an unlinked item of government expenditure, the age pension, which is affected by insufficient retirement savings.²

Our position is still unchanged on this issue, and we continue to make our call that, just like the age pension, these measures are unrelated to a tax on resources companies and should be explicitly decoupled. More critically, AIST believes that a Low Income Superannuation Contribution measure is

² O'Connor, D. 2010. AIST briefing paper November 2010: The benefits of an SG rate of 12 per cent. [e-book] Melbourne: Australian Institute of Superannuation Trustees. <http://tinyurl.com/lvv5em8> [Accessed: 29 Oct 2013].

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one which provides greater equity and supports the Government's commitment to Australia's three-pillar retirement system.

We now turn to examining in more detail why we support a Low Income Superannuation Contribution scheme being enshrined in legislation.

2.3 Low Income Superannuation Contribution

AIST supports that a Low Income Superannuation Contribution scheme be enshrined in legislation as it is sound and equitable policy:

2.3.1 Better recognises the changing nature of Australia's workforce, where there is a growing number of part time and casual workers

A Low Income Superannuation Contribution scheme would better reflect the growing trend to part time and casual work through redressing a major tax inequity affecting lower income earners without such a scheme being in place. Part time work has become an ever increasing and important form of employment.

According to a 2008 report from the Productivity Commission³:

	Total employment	Men	Women
1966	10%	4%	24%
2007	29%	15%	45%
From ABS ⁴			
2011	30%	16%	47%

According to the Australian Bureau of Statistics⁵ (which also quotes Treasury), increasing the Australian working age population -and accordingly raising Australia's productivity - is critical. The ABS report also mentions that the increase in labour force participation of females is associated with part-time work.

³ http://pc.gov.au/__data/assets/pdf_file/0020/81065/part-time-employment.pdf

⁴ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/lookup/6310.0Main%20Features2August%202011?opendocument&tabname=Summary&prodno=6310.0&issue=August%202011&num=&view=>

⁵ <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by+Subject/4125.0~Jan+2012~Main+Features~Labour+force~1110>

Point 2.3.3 below also examines how a LISC scheme helps redress the retirement savings gap of women. Within the context of how LISC better reflects Australia's changing workforce patterns, special mention should be made of female employees. According to the Australian Bureau of Statistics⁷ nearly half (46%) of female employees work part time. ABS also notes that the average total cash earnings for part time female employees is \$562.40.

2.3.2 Provides essential support to the Government's commitment to Australia's three-pillar retirement system

Compulsory superannuation is an essential component of Australia's three pillar retirement system and provides a sound foundation for the Government in addressing retirement income needs and the financial risks associated with an ageing population.

The bedrock of retirement savings can be witnessed by the growing superannuation coverage of the Australian workforce. According to the Australian Bureau of Statistics, the proportion of employees covered by superannuation has grown from 32% in 1974 to 94% in 2007⁶.

Given this solid foundation of retirement savings, it is even more pressing that highly visible taxation inequities - which affect millions of Australians within the compulsory superannuation system - be redressed. The compulsory superannuation pillar of the Australian superannuation system is a core priority.

2.3.3 Redresses fundamental inequities

- **Over 30% of the workforce benefit.** Current estimates are that over 3.6 million workers benefit from a Low Income Superannuation Contribution scheme. This is just over 30% of the Australian workforce.

⁶ 4102.0 Australian Social Trends March 2009

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/4102.0Main%20Features70March%202009?opendocument&tabname=Summary&prodno=4102.0&issue=March%202009&num=&view>

⁷ ABS, Caring in the Community (2012) Catalogue number 4436.0

Unfairly taxing superannuation guarantee contributions reduces the level of superannuation guarantee contributions in a member's superannuation account. In turn, this reduces the effectiveness of superannuation guarantee contributions in a way which is especially inequitable for low income earners.

- **Addresses an inequity for those people who are paying more tax on super than they do on their take-home pay**

Economic theory has long held that individuals should be rewarded for the decision to forgo spending in the short term, in return for putting money aside for the future. The decision to tax on the contributions of low income earners at the same rate breaks this rule.

Given that superannuation guarantee contributions are taxed at a flat 15%, this gives rise to a tax benefit that is larger for higher income earners with higher marginal tax rates.

- **Helps redress the retirement income savings gap of women – over 50 per cent of all women employees would benefit**

Adoption of a Low Income Superannuation Contributions scheme would especially help women. Current estimates note that of the 3.6 million workers who would benefit from the scheme, approximately two-thirds are women. This means that such a scheme would benefit over 50 per-cent of all women employed in Australia. Both the average accumulation scheme and retirement savings of women are slightly more than half that of men.

Given that more women than men work part time (and this trend is continuing) AIST submits that a Low Income Superannuation Contribution scheme would continue to help redress lower retirement savings of women.

2.3.4 Helps further increase confidence in the superannuation system

A LISC scheme – which addresses a fundamental inequity – coupled with a lack of a further change to the superannuation system – would help further increase member confidence.

Member surveys consistently find that the top retirement issue for members is whether they will have an adequate retirement benefit. Confidence in the superannuation system is assisted through addressing such inequities.

2.4 Delay in increase to the Superannuation Guarantee (SG)

AIST has long supported an increase in the SG to 12%, having raised this in our submission to the Henry Review⁹. We are aware, however that this measure is unable to be immediately implemented, and has been progressively implemented.

While AIST notes with reluctance the delay of two years in implementation, we support the practical limitations in implementing this according to the existing timeframe.

Any delay in the Superannuation Guarantee impacts on the Government's ability to provide an adequate and sustainable superannuation system. AIST will continue to maintain a watching brief on the timetable for increasing the Superannuation Guarantee to 12%.

⁹ AIST 2008.