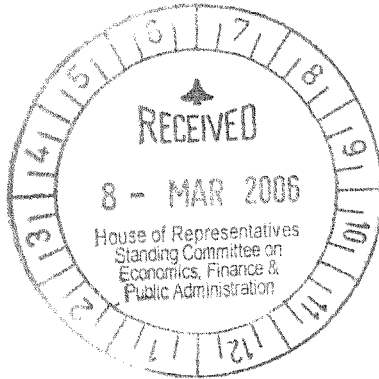


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**SUBMISSION 71**

House of representatives Standing Committee on
Economics, Finance and Public Administration

Submission No: 71

Date Received: 8/03/06

Secretary: LIS

**Australian Government****Department of Industry
Tourism and Resources**

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Ms Sharon Bryant
Inquiry Secretary
Standing Committee on Economics, Finance and Public
Administration
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Ms Bryant

**INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF
PEOPLE UNDER AGE 40**

I refer to your correspondence of 21 February 2006 regarding attendance by representatives of the Office of Small Business at the Committee's hearing on 10 February 2006 in Canberra.

At the hearing, the Committee requested that we investigate whether further information could be supplied regarding:

- the extent of voluntary contributions by the self-employed;
- the level of business assets of self-employed where no superannuation held;
- the prospects for small business sales prices on retirement; and
- the use of superannuation to buy a business on retirement and its prospects of success.

Additional material we have been able to obtain on these matters is enclosed.

Yours sincerely

Tony Greenwell
General Manager
Office of Small Business

6 March 2006

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The extent of voluntary contributions by the self-employed

Data provided by Treasury in their submission to the Inquiry indicates that

- The total value of concessional taxation of superannuation was estimated to be \$13.3 billion in 2004-05. Of this, deductions for contributions by the self-employed totalled \$240 million (1.8%);
- Contributions by the self-employed were estimated to be approximately \$100 million in 2002-03, relatively unchanged over the period from 1999-2000; and
- The number of self-employed people under age 40 making superannuation contributions fell from 41,000 to 30,000 over the period 1999-2000 to 2002-03.

The level of business assets of self-employed where no superannuation held

While we have not been able to source statistics or research on this specific issue, the following information may be of assistance to the Committee.

The ABS conducts a Household, Income and Labour Dynamics (HILDA) Survey from time to time. An article in the Reserve Bank of Australia Bulletin of April 2004, *The Composition and Distribution of Household Assets and Liabilities: Evidence from the 2002 HILDA Survey*, may provide some context for the Committee on the level of business assets held by the self-employed (see Attachment A).

The Bulletin article provides more information on median values, as this is more representative of a 'typical' household since it describes the household in the middle of the distribution (the median is less affected by outliers).

The results suggest that the net wealth of the median self-employed household was around \$147,000 more than that of an employee (see Extract from Table A.1). This is consistent with the notion that many small business operators save for their retirement by reinvesting in their business. However, the results do not distinguish between the assets of self-employed with or without superannuation. The results do not identify that self-employed households had significantly greater median values of property, business, vehicle, collectibles or financial asset classes, apart from life insurance (see Extract from Table A.3, A.4). Where the self-employed did hold superannuation, the median value tended to be about the same as the employed. It is understood that those that operate their own incorporated enterprise with or without hiring employees are classified as employees in HILDA surveys.

The ABS may be able to provide more recent information from the Household Wealth and Wealth Distribution Survey, 2003-04 (ABS Cat No 6554.0), which is due to be released later in March 2006, or from the 2003-04 HILDA survey.

The prospects for small business sales prices on retirement

In 2004, CPA Australia commissioned a survey on small business succession and exits. 105 of its members in public practice and 600 small business owner or managers were surveyed. The survey found that of the owners that were planning to use their business as the primary source of retirement funding, 30% said they expect to have trouble finding a buyer and a further 12% were unsure about the prospects for

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sale. 40% of those using their business as the main source of retirement funding were planning to exit in the next 5 years.

71% of CPAs thought that the business' dependence on the owner applied to a great deal or a fair amount of their small business clients as a barrier to selling it. 47% of CPAs thought that owners' unrealistic expectations about the value of the business applied to a great deal or a fair amount of their small business clients.

The use of superannuation to buy a business on retirement and its prospects of success

While we have not been able to source statistics or research on this specific issue, the following information may be of assistance to the Committee.

OSB commissioned Sensis Pty Ltd to collect data on finance, innovation and international activity as part of their August 2003 Business Index. This showed that when starting a business from scratch, just 3 per cent of businesses used redundancy/superannuation payouts to finance the start up of the business. Other results from the survey are available on the Department's website, www.industry.gov.au.

A December 2000 Productivity Commission Staff Research Paper by Ian Bickerdyke, Ralph Lattimore and Alan Mudge, *Business Failure and Change: An Australian Perspective*, indicated that older business owners faced a lower bankruptcy risk (see Attachment B). Those aged 55 or more represented 2.42 bankruptcies per 1000 employers and self-employed. This represented about one third the level for the highest risk group (35-44 years of age).

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Attachment A

Extract from Table A.1: Household Balance Sheet

Household Characteristic	Net Wealth		Financial Assets		Non-financial Assets		Debt	
	Mean \$'000	Median \$'000	Mean \$'000	Median \$'000	Mean \$'000	Median \$'000	Mean \$'000	Median \$'000
Current Work Status:								
Employee	413.7	226.3	160.4	61.5	343.0	228.5	89.7	35.2
Self Employed	615.7	371.0	171.4	58.5	559.1	350.0	114.8	40.2
Retired	415.7	257.0	154.1	35.5	272.2	188.0	10.7	0.0
Other not working	200.0	32.4	65.7	5.0	169.3	14.0	35.0	1.2

Extract from Table A.2: Household Gearing (ratio of debt to asset; per cent)

Household Characteristic	All households				Households with type of debt		
	Total Gearing		Property Gearing		Gearing on all property	Gearing on own home	Gearing on other property
Current Work Status:	Aggregate %	Median %	Aggregate %	Median %	Median %	Median %	Median %
Employee	17.8	17.5	26.0	25.0	40.0	42.2	57.1
Self Employed	15.7	12.2	19.0	11.4	33.3	37.3	56.4
Retired	2.5	0.0	2.5	0.0	20.0	23.5	33.7
Other not working	14.9	2.7	18.0	1.7	39.1	40.0	40.0

Extract from Table A.3: Household Holdings of Financial Assets, by Type of Asset (proportion of households holding asset)

Household Characteristic	Equity Investments	Cash Investments	Trusts	Deposits	Life Insurance	Super-annuation
Current work status	%	%	%	%	%	%
Employee	45	2	5	97	13	97
Self-employed	46	4	6	98	15	79
Retired	39	7	2	98	8	30
Other not working	21	2	2	91	4	52

Extract from Table A.3: Household Holdings of Financial Assets, by Type of Asset (median value of holdings for households holding asset)

Household Characteristic	Equity Investments	Cash Investments	Trusts	Deposits	Life Insurance	Super-annuation
Current work status	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Employee	10	20	15	5	14	35
Self-employed	15	20	10	8	20	35
Retired	34	40	50	10	12	95
Other not working	15	30	14	1	12	8

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Extract from Table A.4: Household Holdings of Non-financial Assets, by Type of Asset (proportion of households holding asset)

<i>Household Characteristic</i>	<i>Primary Residence</i>	<i>Other Residential Property</i>	<i>Business assets</i>	<i>Vehicles</i>	<i>Collectibles</i>
Current work status	%	%	%	%	%
Employee	68	19	13	93	15
Self-employed	74	26	56	95	19
Retired	79	10	2	79	14
Other not working	42	8	5	74	10

Extract from Table A.4: Household Holdings of Non-financial Assets, by Type of Asset (median value of holdings for households holding asset)

<i>Household Characteristic</i>	<i>Primary Residence</i>	<i>Other Residential Property</i>	<i>Business assets</i>	<i>Vehicles</i>	<i>Collectibles</i>
Current work status	\$'000	\$'000	\$'000	\$'000	\$'000
Employee	255	200	80	16	10
Self-employed	265	210	90	20	12
Retired	200	170	75	11	7
Other not working	200	168	40	7	5

Extract from Table A.5: Household Holdings of Debt, by Type of Debt (proportion of households holding debt)

<i>Household Characteristic</i>	<i>Home Loan</i>	<i>Investor Property Loan</i>	<i>Business Debt</i>	<i>Credit Card Debt</i>	<i>HECS</i>	<i>Other Personal Debt</i>	<i>Any Debt</i>
Current work status	%	%	%	%	%	%	%
Employee	46	10	5	37	17	39	82
Self-employed	37	14	26	36	12	37	77
Retired	7	1	-	13	-	6	24
Other not working	20	4	-	21	14	22	57

Extract from Table A.5: Household Holdings of Debt, by Type of Debt (median value of holdings for households holding debt)

<i>Household Characteristic</i>	<i>Home Loan</i>	<i>Investor Property Loan</i>	<i>Business Debt</i>	<i>Credit Card Debt</i>	<i>HECS</i>	<i>Other Personal Debt</i>	<i>Any Debt</i>
Current work status:	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Employee	97	120	50	2	8	10	64
Self-employed	88	90	50	3	7	15	80
Retired	33	120	-	1	-	5	5
Other not working	80	90	-	2	7	4	13

Source: Reserve Bank of Australia Bulletin of April 2004, *The Composition and Distribution of Household Assets and Liabilities: Evidence from the 2002 HILDA Survey*

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Attachment B

Table 3.5 Business bankruptcies per 1000 employers and self-employed, by age, 1997-98

	<i>Business bankrupts</i>	<i>Employers and self-employed</i>	<i>Bankruptcies per 1000 employers and self-employed</i>
	No.	No.	No.
Less than 25	252	46 340	5.44
25-34	1 547	230 950	6.70
35-44	1 936	353 250	5.48
45-54	1 548	332 930	4.65
More than 54	604	249 450	2.42
Total	5 887	1 212 920	4.65

Sources: Inspector-General in Bankruptcy (*Annual Report, 1997-99*). ABS (unpublished labour force data).

Source: Productivity Commission Staff Research Paper by Ian Bickerdyke, Ralph Lattimore and Alan Mudge, *Business Failure and Change: An Australian Perspective*, p 49