SUBMISSION 70

ACTU

393 Swanston St
Melbourne
Victoria 3000 Australia

TELEPHONE
ISD (613) 9663 5266
STD (03) 9663 5266

FACSIMILE
(03) 9663 4051
(03) 9663 8220

WEB
www.actu.asn.au

PRESIDENT
Sharan Burrow

SECRETARY
Greg Combet

RECEIVED
23 FEB 2006
House of Representatives
Standing Committee on
Economics, Finance &
Public Administration

House of representatives Standing Committee on
Economics, Finance and Public Administration
Submission No: 70
Date Received: 23.02.06
Secretary: [signature]

22 February 2006

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

Dear Sharon,

Please find attached the information we said we would provide to the Committee.

We wish we could have been more definitive but the issue is clearly more complex than meets the eye.

I would like to thank the Chairman and the Committee for the spirit in which this inquiry has been conducted. I have found it most useful and informative.

Yours Sincerely

Nixon Apple

Nixon Apple
ACTU Industry and Investment Policy Adviser

ACTU Response to House of Representatives Standing Committee on Economics, Finance and Public Administration

Inquiry into improving the Superannuation savings of people under 40

It was agreed with the Committee that the ACTU would make inquires within the Superannuation industry regarding the feasibility/desirability of means testing the tax on superannuation contributions as an alternative to abolishing it. We would then report back to the Committee on our findings.

We had a very brief and preliminary discussion with one of the industry funds and the staff of that funds administrator. The staff of the Administrator we spoke with worked in the area of tax and compliance and had experience in the compliance and administration issues that arise with the co-contribution scheme as well as the now abolished surcharge scheme that applied to higher income earners. Our preliminary conclusions from these discussions are as follows:

1. In theory an earnings threshold could be applied to the tax on superannuation contributions. For example the system could be re-designed so that the 15% front end tax on contributions only applied to those who (for example) had taxable income (or gross income) of more than $100,000 a year.

2. To do this the tax would still be paid as at present. However, an individual falling below the earnings threshold would, after a period of time, receive a rebate from the tax office paid into their superannuation account.

3. However, the information system, compliance regime and administration arrangements would have to be changed significantly.

   For example:

a) *A rules regime would need to be put in place to take into* account what happens when an individual leaves a fund, changes funds or has several funds;

b) While the contributions tax is levied on individual's contributions it is paid on a net fund wide basis after deductions for administration, insurance etc. A formula would need to be devised to take this into account in determining the rebate that would be made to complying individuals accounts. In this context it is was also suggested that any tax rebate could be difficult to calculate for defined benefit funds. It could be quite complex to calculate the contributions tax payable at the individual level as the assets of these funds are not allocated at the member level and the application of the tax is at fund level. Further system changes would be required to produce the desired calculations and reporting that would be required.

c) Super funds and their Administrators do not have information on members' gross earnings or taxable income. Therefore, the Administrator would be required to provide member statements with a line item specifying taxable contributions. The individual would use this information when filing their tax return. The timing of the fund statements and the timing of preparing/ lodging tax returns may not coincide requiring either:

   i. An additional statement from the fund to the member;

   ii. Claims being made in subsequent years.

In theory, these and other issues could be dealt with. However, a very careful assessment of the additional costs/complexity to the compliance and administration system would need to be undertaken. We are not in a position at this time to support or oppose the option of means testing the tax paid on super contributions.

Public policy is not assisted by over or underestimating the complexity of means testing the earnings thresholds for application of the contribution tax. In this respect it is our assessment that:

a) The best option remains removing the contributions tax;

b) This would best be accompanied by other measures that would enhance equity;

c) The committee might wish to consider recommending a working party of objective participants to assess the costs and benefits of means testing versus abolition of the front-end tax on contributions. This would best be done in the context of an overall examination of moving towards a simpler, and more equitable system of taxing and administering Australia's Superannuation system.

In making this suggestion we note that should the Committee determine to recommend the abolition of the $1350 per quarter earnings threshold it will raise the issue of whether Government (as in Finland) or the private sector (through super funds) should administer the small account balances, at least initially. The Committee we are suggesting would be a good place for this issue to be addressed.

It would also be consistent with the ACTU's recommendation (page 18(2)) for a committee under the guidance of the Productivity Commission to model the costs and benefits of different scenario's for Australians to increase contributions to retirement savings and the long-term generational consequences (particularly for Government taxation revenue).