

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June 2010

Question: **BET 415**

Topic: **Superannuation Co-contributions (ATO)**

Hansard Page: **Written**

Senator EGGLESTON asked:

1. I refer to advice provided by the ATO website indicating that superannuation co-contribution payments were suspended from February 2010. Can the ATO detail why these payments were suspended and what steps were taken to ensure that the payments resumed?
2. How many payments were affected by the suspension and what was their aggregate value?
3. How many payments were delayed by more than 60 days and attracted interest payments from the Government? What was the rate of interest paid on these payments delayed by more than 60 days?
4. Can the ATO explain where the funding comes from to make interest payments on suspended co-contribution payments that have attracted interest?
5. Have the ATO now put structures in place to ensure that co-contributions will not be suspended in the future? How much money did the ATO spend in fixing the suspension of co-contribution payments?
6. Can the ATO explain the process for determining which superannuation fund the co-contribution is paid to when a taxpayer applies for a co-contribution?
7. There have been cases where a taxpayer has made contributions and has had co-contributions paid into an old superannuation fund no longer used by the taxpayer. In particular, this seems to be the case for taxpayers who are now using an SMSF. Can the ATO explain the cases where it would make a co-contribution payment to a superannuation fund no longer used by the taxpayer?
8. How does the ATO verify that co-contribution payments are being made to the correct account?
9. What steps would a taxpayer need to make to ensure that the co-contribution is paid to a different or a new superannuation account?

Answer:

1. The ATO planned to implement the new Income Tax processing system in late January 2010. The scheduled processing runs for co-contributions in February and March 2010 were therefore deferred until April 2010.

The decision to defer co-contributions processing is consistent with the ATO's overall cautious approach to the resumption of income tax return processing. This approach

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June 2010

ensured that the income tax assessment information was up to date prior to processing co-contributions. The decision to defer processing of co-contributions also took into account that approximately 90 per cent of co-contributions had been paid by December 2009.

The ATO was in regular communication with superannuation funds through normal consultative and communication channels, and publicised in advance that no payments would be made in February and March 2010 to allow updates to our new income tax systems to be deployed.

Following the successful implementation of the income tax system the processing of co-contributions was afforded a high priority. Co-contribution processing resumed and payments were made in April 2010 as planned. Processing of co-contributions payments were back to normal levels in May 2010.

2. About 164,000 payments with a value of approximately \$158 million were affected to some degree.

3. Of the 164,000 payments for individuals made in April and May 2010, about 68,000 payments for individuals were processed outside 60 days. These payments included approximately \$266,000 of interest.

The prescribed rates were:

- 3.95 per cent (1 January to 31 March 2010), and
- 4.16 per cent (1 April to 30 June 2010).

Where payments are late (i.e. over 60 days from when the ATO has all relevant information) interest is paid as an additional co-contribution at the rate prescribed by law. Interest is calculated on a daily basis on the amount of the co-contribution. The rate is the monthly average yield of 90-day Bank Accepted Bills published by the Reserve Bank.

4. Interest payments for late co-contributions are appropriated from consolidated revenue.

5. As noted in the response to Question 1 as income tax assessments are a dependency for determining eligibility for co-contributions, the decision was made to defer processing of co-contributions in February and March 2010 whilst the ATO moved to resume normal processing of income tax returns.

There are no plans to further defer the processing of co-contributions. No additional funds were required to return processing to normal levels.

6. Regulation 5 of the Superannuation (Government Co-contribution for Low Income Earners) Regulations 2004 (the Regulations) sets out the process the

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June 2010

Commissioner must follow to determine which superannuation fund account a co-contribution is paid into.

In broad terms (unless the person is deceased or retired and no longer has an eligible account), the law requires:

- (a) if the person has nominated an eligible account to the Commissioner for the purpose of receiving a Government co-contribution, then payment is made to that account
- (b) if (a) doesn't apply, and only one eligible account has already received a co-contribution for the member in the current financial year, then payment is made to that account
- (c) if (a) and (b) do not apply, then payment is made to the eligible account to which the person has made the greatest amount of eligible personal superannuation contributions in the most recent financial year for which the Commissioner has received either a member contribution statement or an self-managed superannuation fund annual return in relation to the member
- (d) if (a), (b) and (c) do not apply, then payment is made to the eligible account with the most recently opened account date, for which the Commissioner has received a member contribution statement or a self-managed superannuation fund annual return in relation to the member
- (e) if (a), (b), (c) and (d) do not apply, then payment is made to the eligible account with the highest account balance in the most recent financial year for which the Commissioner has received either a member contribution statement or a self-managed superannuation fund annual return in relation to the member, and
- (f) if none of the above apply, then payment is made to the eligible account determined by the Commissioner. In practice, this is the eligible account for which the ATO has the most recent information reported.

If the ATO is not aware of any 'eligible accounts' then it is ATO practice to seek nomination of an eligible account from the affected individual.

If the person nominates an eligible account, the nomination has effect until the person nominates another eligible account; or the nominated account stops accepting Government co-contributions for the person; or the nominated account ceases to be an eligible account.

7. In all cases, the ATO follows the terms of the law in determining a destination account.

There is accordingly, a range of circumstances in which a co-contribution might be paid to an 'old account', including:

- the 'new account' is not an eligible account because it either does not accept superannuation co-contributions, is an insurance only account or is currently in pension/annuity phase

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June 2010

- the 'old account' was nominated by the individual and a new nomination has not been received
- neither account was nominated and a co-contribution was paid to the 'old account' during the current financial year, and
- neither account was nominated, and updated annual reporting has not yet been received by the ATO.

If the ATO pays the co-contribution to the 'old account' in accordance with the Regulations and the 'old account' has been closed, then the Trustee will return the payment to the Commissioner and advise that the account is no longer eligible via a payment variation advice form (the law places a 28 day timeframe on this). The ATO will then seek to identify an alternative account, usually by asking the individual to nominate one.

8. Information to enable the Commissioner to make a determination about where to pay a co-contribution comes from a range of sources including:

- fund nomination forms lodged by individuals
- member contribution statements lodged by funds
- self-managed superannuation fund annual returns, and
- payment variation advices from funds returning amounts they are unable to accept.

If a co-contribution is payable then system business rules (designed to apply the Regulations) select an eligible fund using information from the above sources.

All payments are issued to funds with a remittance advice providing account details.

Audit activity conducted on funds over the last three to four years has included sampling to test whether a superannuation fund credited the correct amount to the correct member account or returned it to the ATO by a payment variation. No cases of funds failing to correctly credit accounts have been identified.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June 2010

9. Individuals who want a co-contribution payment made to a specific fund should:
- obtain a copy of a *Superannuation fund nomination form (NAT 8676)*
 - contact their preferred fund to check that the account accepts co-contributions and is eligible, and collect the necessary fund information for completing the form, and
 - accurately complete and lodge the *Superannuation fund nomination form (NAT 8676)* with the ATO nominating the eligible account of their choice.

Advice to this effect and the form are available on the ATO's web site, www.ato.gov.au.