

Superannuation Inquiry - Hansard Corrections and Questions on NoticeFrom: Helen Hewett [helenhew@bigpond.net.au]  
Sent: Saturday, 9 December 2006 10:37 AM  
To: Palethorpe, Stephen (SEN)  
Subject: Re: Superannuation Inquiry - Hansard Corrections and Questions on Notice

Dear Stephen,

Sorry I could get this to you yesterday but I was waiting for some of the information from my members. This has taken some of them a while to calculate.

**Question on notice 1**

The average cost of compliance for the first year for the APRA Licensing was \$274,643 for all funds. The first year would include some set up costs. There was little difference between the medium size industry funds which are still fairly large and the large size industry funds, the first year costs for the medium was \$273,333 on average and \$275,635 for large funds on average. The highest first year costs for a large fund were \$410,000 and the lowest was \$196,000 and for the medium fund the highest first year cost was \$420,000 and the lowest \$150,000.

The second year costs for the large funds on average is \$118,333 and \$133,333 for the medium fund, over all \$125,833 on average.

**Question on notice 2 (p. 132)**

CHAIRMAN – A different subject. The CPA submitted to us today that there should be removal of the 10 per cent rule for tax deductibility of personal contributions so that everyone has equal flexibility in determining the tax treatment of their contributions. They believe it is in the interest of consumers What is the Industry Funds Forum's view on that?

Mr Silk – That is not an issue that the forum has considered. I am not in a position to put a view to you on that matter.

CHAIRMAN – Can you come back to us on that?

Mr Silk – Yes, I would be happy to do that.

**Response**

A number of our members support the removal of the 10% in relation to tax deductibility of contributions for self employed. Attached is a comment for you information.

Regards

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Executive Officer  
Industry Funds Forum  
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Q2 The CPA submitted that there should be a removal of the 18% rule for tax deductibility of personal contributions so that everyone has equal flexibility in determining the tax treatment of their contributions. They have stated that it is in the best interests of consumers. The IFF has been asked for its view on this proposal from the CPA.

#### Response

Based on the 2006-07 Budget proposals outlined in 'A Plan to Simplify and Streamline Superannuation' for self employed (sole-trader / partnership structures) individuals to be treated the same as 'employers' in terms of full tax deductibility for superannuation contributions, and the same as 'employees' in regard to the Government Co-contribution - subject to the passage of legislation, our view is that the 10% rule should be removed to afford equal flexibility and equity to all Australians.

This added flexibility would allow 'employees' to choose between making an undeducted contribution or a deductible contribution to their super fund in the same manner as a self employed individual.

The example listed below highlights the inequity and inflexibility of the 10% rule:

Two individuals, one an employee, the other a sole-trader with more than 90% of income from self-employment, both 50 years of age as at 1 July 2007 and with a gross salary of \$100,000 per annum.

Please note: A transitional period will allow people aged 50 or over on 1 July 2007 to make concessional contributions of up to \$100,000 until 30 June 2012.

The 'sole-trader' makes a deductible contribution of \$80,000 to his Cbus superannuation fund. The capital sum could be generated from a loan, or any means available to the sole-trader, and at any stage throughout the financial year, even at years end.

The 'employee' also makes a deductible contribution up to \$80,000 including SG payments from his employer to his Cbus superannuation fund, but can only make these deductible contributions via salary sacrifice, if available through his/her employer and in line with award conditions if applicable. And, most importantly, the decision for the 'employee' to salary sacrifice has to be made before the income is earned.

The example identifies equal scope to obtain a similar result, but with significantly less flexibility in terms of the contribution source, employer choice, award conditions and when the contribution is made - timing.

In line with our view, all individuals wishing to claim a tax deduction for a superannuation contribution would need to notify their superannuation fund by the time they lodge their income tax return, or the end of the following financial year after the contribution was made, whichever is earlier. This will ensure that the ATO has the relevant information to count the contribution against the relevant cap and to determine eligibility for a co-contribution.