

SUPERANNUATION AUSTRALIA PTY LTD

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31 August 2006

Mr David Sullivan

Committee Secretary

Parliamentary Joint Committee on Corporations and Financial Services

Suite SG.64

Parliament House

CANBERRA ACT 2600

Dear Mr Sullivan,

**RE: INQUIRY INTO THE STRUCTURE AND OPERATION OF THE
SUPERANNUATION INDUSTRY**

Thank you for the opportunity to forward a written submission to the above inquiry.

As we are specialists in the area of Self Managed Superannuation Funds (SMSFs) we have confined our responses to the following terms of reference being –

- Item 3 – The relevance of Australian Prudential Regulation Authority standards;
- Item 4 – The role of advice in Superannuation;
- Item 7 - The reasons for the growth in self managed superannuation funds;
- Item 9 - Cost of compliance; and
- Item 15 - Any other relevant matters.

We look forward to the possibility of participating in your Committee's future public hearings.

Yours sincerely,



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SUBMISSION BY SUPERANNUATION AUSTRALIA PTY LTD
INQUIRY INTO THE STRUCTURE AND OPERATION OF THE
THE SUPERANNUATION INDUSTRY
SUPERANNUATION AUSTRALIA'S
SELECT RESPONSES TO TERMS OF REFERENCE

A. ITEM 3 - RELEVANCE OF AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA) STANDARDS

Key points: **APRA standards recognised are critical.**
 Better targeting of Self Managed Superannuation Funds (SMSFs) standards.
 Improved co-ordination with the Australian Taxation Office (ATO).

Although APRA is the regulator of all superannuation entities other than SMSFs, we as members of the SMSF industry clearly recognise the need for the Superannuation Industry (Supervision) Act 1993 (SISA93) prudential standards and therefore APRA's role is highly valued.

With the projected growth in the value of assets held by SMSFs, together with the Federal Government's current focus of raising the profile of superannuation within the general public, the role of APRA's prudential standards will assume increased significance.

Key elements of APRA's prudential role are communicated to the industry via its Superannuation Circulars. These both summarize and clarify important aspects of SISA93 and the Superannuation Industry (Supervision) Regulations 1994 (SISR94).

However, at times we do feel that some of APRA's material, relevant to SMSFs, does miss its intended audience because it forms part of an overall industry publication.

Accordingly, there may be a distinct benefit if certain APRA material relevant to SMSFs was produced in greater co-ordination with the ATO.

Recommendations

APRA and the ATO to improve their co-ordination in the production of materials specific to SMSFs.

B. ITEM 4 –THE ROLE OF ADVICE IN SUPERANNUATION

Key point: Current SMSF exemptions and modifications are practical and adequate.

The recent financial services reforms now reflected in the Corporation Act 2001 and the Corporations Regulations have provided specific exemptions and modifications for SMSFs. We recognise that advice is important for those who are seeking it, however it should not be forced upon everyone, especially in areas peculiar to SMSFs.

We believe that the key exemptions now provided to SMSF trustees in the areas of Product Disclosure Statements (PDSs) and Licensing are practical and adequate and we believe that there has been no demonstrated need for any change.

Recommendations

That no changes be made in the areas relevant to SMSFs.

C. ITEM 7 - THE REASONS FOR GROWTH IN SMSFS

Key reasons: Control, flexibility and cost.

The growth in the number of SMSFs has been phenomenal in recent years. Having been a key member of the SMSF industry for a number of years as both an educator and publisher, we have generally concluded that they are setup for the following reasons being –

- greater control over investments and taxation management; and
- reduction in costs.

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Greater control over investment and taxation management

Most of our members have established their own fund to have greater control over their investments, particularly those who have invested in direct property, unit trusts and shares. In addition various tax benefits are available to SMSFs that are not otherwise available if monies are invested in corporate or public offer funds.

Cost reductions

In certain circumstances it may be more cost effective for an individual to establish a SMSF than invest their superannuation monies in public offer funds. From time to time the following significant fees have been deducted from the accounts of members of larger funds being: establishment, contribution, withdrawal, termination, administration, switching, advisor service, commission, issuer, expense recoveries, member and non-contribution fees.

D. ITEM 9 - COST OF COMPLIANCE

Key point: Recognition that there is always room to reduce SMSF compliance costs.

The great majority of SMSF trustees are informed, prudent and conservative and therefore it can be argued that it is appropriate for their compliance burden to be reduced. This argument has gained greater weight now that the Governments proposed changes to superannuation will create a much simpler and more streamlined industry.

Recommendations

Leverage off the current policy momentum and begin investigating ways in which the costs of compliance for SMSFs can be reduced.

E. ITEM 15 - ANY OTHER RELEVANT MATTERS

Key matter: Allow SMSFs to accept or acquire “residential investment property” from related parties.

The proposed changes to superannuation announced by the Federal Government as part of Budget 2006 will have a significant change in the way people save for their retirement. We expect that the general public will soon realise the benefits of accumulating wealth within superannuation and not outside of it.

However, with the proposed changes which include the abolition of Reasonable Benefits Limits (RBLs), it could be reasonably argued that individuals, who have already accumulated wealth outside of superannuation in order to avoid RBLs, are now being unfairly discriminated against by the proposed changes.

One such group would be the holders of unencumbered residential investment properties.

We believe that this situation can be remedied in a fair and equitable manner by allowing SMSFs to either acquire or accept in the form of an in-specie contribution, “residential investment property” from related parties, just as is currently allowed with “business real property” and “ASX listed securities”.

Recommendation

Allow SMSFs to accept or acquire “residential investment property” from related parties.