



**Submission to**

**Senate Economics Reference Committee**

**Inquiry into**

**THE STRUCTURE AND DISTRIBUTIVE  
EFFECTS OF THE AUSTRALIAN TAXATION  
SYSTEM**

**by**

**The Association of Independent Retirees (A.I.R.) Ltd**

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## RECOMMENDATIONS

- 3.1 *That full indexation of the personal income tax system be undertaken to remove the impact of bracket creep.*
- 3.2 *That the income at which the top tax rate applies should be raised to \$80,000.*
- 3.3 *That Senior Australians, who have incurred capital losses that they have not been able to offset against capital gains, be allowed to offset 50 percent of those losses against other income in current and future years.*
- 3.4 *That Government progressively adjusts the income/assets test relationship by increasing the assets limit over a period of 5 years to reflect more accurately the earning power of the assets held.*
- 3.5 *That refundable tax credits equal to the Senior Australians Tax Offset be paid to single self-funded retirees on incomes up to \$14,400 and to couples with combined incomes up to \$25,000.*
- 3.6 *That the Australian Tax Office changes the method of determining unused SATO transfers by applying available tax offsets to the spouse's notional tax liability before calculating the amount to be transferred.*
- 3.7 *That the Commonwealth Government direct the Australian Taxation Office to remove the tax-free component of an Eligible Termination Payment (or allocated pension) from the calculation of the Senior Australians Tax Offset.*
- 3.8 *That, where the compulsory sale of shares or other property held by Senior Australians results in a cash settlement and the cash is re-invested fully in income producing assets within 3 months of the disposal, capital gains tax liability be deferred until the ultimate disposal of these assets.*

- 3.9 That, where the 15 percent Superannuation Rebate exceeds the taxpayer's tax liability any excess be offset against the Medicare Levy and any residual amount refunded to the taxpayer.**
- 3.10 That the tax threshold for quarterly PAYG instalments (including those registered for GST and those who are partners in a partnership registered for GST) be increased immediately to \$12,000 and adjusted each year by the GDP growth factor.**
- 3.11 That recipients of income from superannuation funds and/or pension schemes in which the recipient has no control over the disposition of the payout be permitted to split the income with his/her partner for income tax purposes.**
- 3.12 That the superannuation surcharge tax apply only to the amount above the threshold.**
- 3.13 That the superannuation contribution tax be phased out by a 3 percent per annum reduction in the rate over the next five years.**
- 3.14 That legislation be amended to increase the Superannuation Guarantee from 9% (1 July 2002 rate) to 15% and that this increase take effect over the period 1 July 2003 to 30 June 2009 and be at the rate of 1% per year, 0.5% being employee contributions and 0.5% employer contributions.**

## INTRODUCTION

The Association of Independent Retirees (A.I.R.) Ltd welcomes the opportunity to present this submission to the Senate Inquiry *“The structure and distributive effects of the Australian taxation system”* because of the impact of the many deficiencies and inequities of the present taxation system on self-funded retirees.

A.I.R. was founded in 1990 to represent fully and partly self-funded retirees (SFRs) to all levels of government, Federal, State and Local. Prior to its formation, no organisation existed with the sole purpose of representing this rapidly growing section of the Australian population.

A.I.R. is a non-party political, non-profit company, representing people who are not in full time employment and who do not receive a full age pension. It will continue to advocate on behalf of SFRs to achieve equitable treatment from the three tiers of government.

A.I.R. is committed to ensuring that the voice of self-funded retirees is heard by Government Ministers by regular presentations of its opinions and proposals to members of both Houses of Parliament and to Government sponsored inquiries.

In Australia, the number of partly and fully self-funded retirees over the pension eligibility age already exceeds one million. In addition, the Australian Bureau of Statistics estimates indicate that there are some 1.25 million retirees between the ages of 50 and pensionable age.

Demographic changes in the Australian population will increase significantly the number above pensionable age in coming years. Increasing numbers of retirees will receive superannuation payouts. As the effects of the Superannuation Guarantee Levy become more marked these sums will increase but to a substantially lesser extent than would be the case if the taxation on superannuation inputs were to be reduced.

An overhaul of Australia’s complex superannuation system and reductions in the excessive tax burden placed on superannuation are needed to improve the efficiency of the system and to maximise outcomes for retirees.

## **1. AUSTRALIAN SELF-FUNDED RETIREES**

### **1.1 Their Population.**

AIR estimates, based on a variety of data from the Australian Bureau of Statistics, the Australian Tax Office and from other Government sources, place the total population of fully or partly self-funded retirees above pensionable age at about 1,050,000.

Of these some 450,000 are classified as fully self-funded i.e. not receiving any Age or DVA pensions.

Those receiving a part Age or DVA pension make up the remaining group of about 600,000.

In addition to those 1,050,000 partly or fully self-funded retirees over pensionable age (65 for males, 62 for females) the ABS estimates there are a further 1,250,000 between age 55 and the age of pension eligibility. No information is available on what proportion of these voluntary or enforced retirees is partly or fully self-funded.

With the growth rate of the over 55s around 3 percent per annum and that of the over 65s steadily increasing to a peak of 3.5% in 2012 (ABS. Cat. 3222.0) there will be a marked increase in the retiree population over the next decades.

This demographic change will mean that, gradually, an increasing number of older voters will be impacted by the inequities of the present taxation system. They can be expected to demand correction of these inequities. Government will need to respond to these pressures in a positive and constructive manner.

### **1.2 Their Assets.**

By definition, self-funded retirees have acquired sufficient assets throughout their working lives to fund their retirement at least partially. In many cases these assets also preclude the retiree from accessing the Age Pension, even though the earning power of the assets may be insufficient to provide a reasonable standard of living.

In March, 1985 the age pension income cut-off stood at \$18,453 for a couple and the assets cut-off at \$253,270. Assets of up to \$100,000 gave a couple access to the full age pension. At present, the corresponding figures are \$52,273, \$447,500 and \$206,500. It is clear that a vast change has occurred in the relationships between the income and assets cut-off levels.

In 1985, with interest rates around 15 percent, assets of \$253,270 could generate an annual income of almost \$38,000. By contrast, in 2003 assets of \$447,500

invested at the current rates of about 4.6% can only provide an income of \$20,585 per annum. When these figures are adjusted for changes in the Consumer Price Index the 1985 income is equivalent to a 2003 income of between \$75,000 and \$80,000.

There has been a dramatic shift over the 1985 to 2003 period from a position where the income test in 1985 was the primary determinant of pension eligibility to the current position where asset levels are more significant in limiting a retiree's access to the age pension.

AIR believes that it is time for adjustment in the relationship between the income and assets test cut-off points. Clearly it will not be possible for Government to make a one-off adjustment to bring them back to the position prevailing in 1985. However, it is important that progressive changes be made to the assets test limit to bring the income/assets limits into a more equitable relationship.

### 1.3 Their Income.

A recent paper by the Institute of Chartered Accountants, (*"Older Getting Wiser" – September 2002*) revealed interesting data on the level and sources of income of all persons over the age of 65 together with all retirees over the age of 60 in ten OECD countries, including Australia. For simplicity, these were defined as "*pensioners*" for the purposes of the study.

In this paper the author compared the incomes of these *pensioners* with the average income of the rest of the population in each of the ten OECD countries.

For Australia, the study showed that about **80 percent** of the *pensioners* had incomes **below half** that of the overall population, with about **50 percent** lying in the bottom **third** of the income scale.

While the author of the ICA paper did not give the results in dollar terms, it is possible to add some meaning to the information from the findings of a survey of A.I.R. members carried out in late 2002. Data were gathered on incomes of single and couple members of the association, 95 percent of these being partly or fully self-funded retirees.

#### Singles:

|                    |       |
|--------------------|-------|
| Less than \$16,000 | 11.7% |
| Less than \$29,000 | 50.2% |

#### Couples:

|                    |       |
|--------------------|-------|
| Less than \$16,000 | 1.9%  |
| Less than \$29,000 | 26.8% |
| Less than \$49,000 | 70.4% |

Although the two sets of data refer to somewhat different populations, they do support A.I.R's contention that self-funded retirees cannot be considered as wealthy members of the community.

When the figures are compared with Average Weekly Ordinary Time Earnings (AWOTE) of all Australian workers standing at \$45,730 in September 2002, it is clear that retirees' incomes in general, including those of self-funded retirees, are clearly at the lower end of the income scale.

Some additional data from the Australian Tax Office on income tax paid by self-funded retirees for the 1998-1999 tax year (the latest available), i.e. before the introduction of the GST and the concurrent tax cuts, does add validity to the points made above.

In 1998-1999:

450,000 fully self-funded retirees paid tax

420,000 partly self-funded retirees paid tax

Of these:

540,000 (62%) had taxable incomes below \$20,700

690,000 (79%) had taxable incomes below \$38,000

#### 1.4 Their Sources of Income.

The Institute of Chartered Accountants' paper, *Older Getting Wiser* referred to earlier, provides an insight into the source of *pensioners'* incomes. Although this population differs a little from that of actual retirees the information is useful when looking at income sources at different income levels in the retiree population.

Data are broken down for three quintiles: Quintile 1 (poorest), Quintile 3 (middle) and Quintile 5 (richest):

| Australia - Income composition by quintile - percentages |                |                  |             |          |
|--|----------------|------------------|-------------|----------|
|  | Govt. benefits | Private pensions | Investments | Earnings |
| Quintile 1<br>(poorest)                                  | 89             | 2                | 6           | 3        |
| Quintile 3<br>(middle)                                   | 88             | 3                | 8           | 1        |
| Quintile 5<br>(richest)                                  | 15             | 28               | 31          | 24       |



The high level of earnings in the fifth quintile suggests that many of the *pensioners*, defined as all those over 65 and retirees between 60 and 65, were actually employed full or part-time.

Nevertheless, the data indicate the importance of the Australian pension system in the lower income brackets and even its significance at the upper end of the income scale.

The data also highlight the dramatic change in income source to private pensions and investments at highest income levels.

## **2. THE PRESENT TAXATION SYSTEM – ITS IMPACT ON SELF-FUNDED RETIREES.**

Present retirees accumulated their retirement savings, in all forms - superannuation, property, investments – in a period of high direct taxation, with the consequent difficulty of generating sufficient savings to fund their retirement living.

**They now find themselves utilising their life savings under a taxation regime in which indirect taxes diminish the purchasing power of those accumulated funds.**

This double-edged effect – saving under high direct taxation – spending under increased indirect taxation, falls most heavily on fully self-funded retirees who can derive no benefit from compensation built into the social security system.

Those who have retired since the introduction of the GST and those retiring in the next few years will be similarly disadvantaged, although to a gradually diminishing extent.

The one-off compensation payments made to self-funded retirees when the GST was introduced were patently inadequate to remedy this situation. No compensation was available to those retiring in the years immediately following.

The present practices of applying multiple taxes to superannuation contributions, fund earnings and the superannuation surcharge all have adverse effects on ultimate retirement benefits. They also tend to dissuade individuals from making additional personal contributions to boost their end benefits. The complex and frequently changing laws relating to superannuation have also had a negative impact on voluntary savings.

These are particularly serious deficiencies during the early years of the compulsory savings scheme when employer contributions have only recently reached the 9 percent level. It is broadly acknowledged that, even at 9 percent contribution, a worker would need 40 years of continuous participation to reach even a moderate retirement income.

### **.3. A.I.R. PROPOSALS FOR TAXATION CHANGES.**

#### **3.1 The Impact of Inflation on Real Tax Rates.**

The interaction of inflation and a progressive personal income tax rate scale causes real tax rates to rise even if real incomes (expressed in terms of purchasing power) have not risen. The Mathews Committee report clearly showed that this effect (which has become known as "bracket creep") leads to a redistribution of the burden of taxation towards lower income receivers. Although the relatively low rates of inflation of recent years have reduced the impact of this effect, with the result that little public attention is currently paid to this problem, it would be optimistic in the extreme to assume that high rates of inflation can never re-emerge. Accordingly, the personal tax system should incorporate provisions to prevent the redistribution of tax burdens which occurs simply because consumer prices have risen.

Bracket creep will inevitably occur in a progressive tax system, unless that tax system is fully indexed. Full tax indexation is the only means of avoiding this effect. Full indexation implies that all aspects of the system- rate scale, rebates and allowances- should be regularly adjusted for the current rate of inflation. Automatic adjustment should take place at intervals of no more than twelve months.

#### **Recommendation 3.1**

**That full indexation of the personal income tax system be undertaken to remove the impact of bracket creep.**

### **3.2 Raise Income Level at which Top Tax Rate Applies.**

In 1960 a taxpayer had to earn about 18 times average weekly ordinary time earnings to attract the top tax rate while, in 2002, the ratio had fallen to only 1.3 times AWOTE. This emphasises how taxpayers on quite moderate incomes are now bearing an increasing share of the overall tax burden.

In 1987, when average weekly earnings stood at \$444.50 (\$23,114 p.a.) the highest tax rate applied to income above \$35,000. In 2003 the top tax rate applies to income above \$60,000 when average weekly earnings had risen to \$789.40 (\$45,730 p.a.). On a strictly proportional basis the income at which the top rate cuts in should be raised to about \$79,000.

The Australian Taxation Office will have access to income distributional data from which it should be possible to establish an appropriate point at which the top tax rate should be applied. **It is the view of A I R that it should be not less than \$80,000.**

#### **Recommendation 3.2:**

***That the income at which the top tax rate applies should be raised to \$80,000.***

### **3.3 Treatment of Realised Capital Losses.**

Since the early 1990s, the number of Australians holding shares in public companies has greatly increased. Nearly 60% now hold some shares, albeit a small number in many cases. Over a quarter of these are aged 55 and over.

It is evident that when a person enters retirement there are diminishing opportunities to recover capital losses. This is particularly so among those with a limited number of assets, whether in the form of property or a narrow share portfolio. As retirees progress through their retirement years this situation becomes more acute, to the point where recovery of capital losses becomes impossible and the losses are never recovered.

The objective of AIR's recommendation, below, is to overcome this situation by allowing, for those in retirement, 50 percent of capital losses to be offset against other income in situations where the retiree has no capital gains against which the capital losses can be offset. The figure of 50 percent is suggested to ensure that the proposal is in keeping with the capital gains tax legislation where only 50 percent of the gain is taxable.

#### **Recommendation 3.3:**

***That Senior Australians, who have incurred capital losses that they have not been able to offset against capital gains, be allowed to offset 50 percent of those losses against other income in current and future years.***

### 3.4 Age Pension Income and Asset Limits.

There has been a dramatic shift over the period 1985-2003 from a position where the income test in 1985 was the primary determinant of pension eligibility to the current position where assets levels are more significant in limiting a retiree's access to the Age pension.

The following table illustrates this:

| Pensioner Couple | Income Limit | Assets Limit | Max. Assets for Full Pension |
|------------------|--------------|--------------|------------------------------|
| 1985             | \$18,453     | \$253,270    | \$100,000                    |
| 2003             | \$52,273     | \$447,500    | \$206,500                    |

Over the period between 1985 and 2003 there has been a marked change in the earning capacity of the assets held, as shown in the following table:

|      | Assets Limit | Interest Rate | Income Generated |
|------|--------------|---------------|------------------|
| 1985 | \$253,270    | ~ 15%         | \$38,000 p.a.    |
| 2003 | \$447,500    | 4.6%          | \$20,865 p.a.    |

When the income generated in 2003 is adjusted for changes in the Consumer Price Index, the income equivalent to the indexed 1985 figure would be between \$75,000 and \$80,000 per annum.

AIR maintains that it is time for adjustment in the relationship between the income and assets test cut-off points by a substantial increase in the allowable assets limit. While it may not be possible for Government to make a one-off adjustment to bring them back to the position prevailing in 1985, it is important that progressive changes be made to bring them into a more equitable relationship.

#### **Recommendation 3.4:**

***That Government progressively adjusts the income/assets test relationship by increasing the assets limit over a period of 5 years to reflect more accurately the earning power of the assets held.***

### **3.5 Compensation for Low Income Self-Funded Retirees.**

There are many SFRs who receive very low incomes, because, even though their assets preclude them from receiving a pension, the earning power of those assets is insufficient to generate a reasonable living income. They are sometimes classified as 'assets rich, income poor'. Although their assets are above the pensioner assets test limit, this group of SFRs is of particular concern to A.I.R.

For a single SFR with assets of \$290,500 (the assets test limit for a part pension) the maximum safe income that can be generated through a bank deposit at present deeming rates is \$11,620.

Similarly an SFR couple with assets of \$447,500 (the assets test cut-off for a homeowner couple for a part pension) the maximum safe income based on deeming rates is only \$17,900.

The increase in the Senior Australian Tax Offset to \$2,230 (single) and \$1,602 (each of a couple) has resulted in significant tax savings to those receiving incomes above \$14,400 (single) and \$25,000 (couple combined) up to the offset cut-off of \$37,840 (single) and \$58,244 (couple combined). However, those retirees at the lower end of the income scale, below \$14,400 (single) and \$25,000 (couple combined), received no tax benefits from the Budget.

AIR requests Government to address this situation as a matter of urgency. A possible mechanism by which this group could be compensated would be the introduction of special refundable tax credits payable to those SFRs whose assets preclude them from accessing social security payments but generate only a low income.

#### **Recommendation 3.5:**

***That refundable tax credits equal to the Senior Australians Tax Offset be paid to single self-funded retirees on incomes up to \$14,400 and to couples with combined incomes up to \$25,000.***

### **3.6 Senior Australians Tax Offset – Transfer of Unused Offset.**

In the case of a Senior Australian couple the calculation of the residual SATO transferable from spouse to taxpayer presently involves the determination of the notional tax liability of the spouse even though no actual tax may be payable. This may be due either to the spouse's income being below \$16,306 or because the spouse's tax liability is removed by superannuation, annuity, allocated pension or other tax offset.

The notional tax so determined is deducted from the full \$1602 tax offset. For example, the SATO transferable from a spouse with a \$10,000 allocated pension (with no UPP) is reduced from \$1602 to \$922 by deducting the spouse's notional tax of \$680. If the 15% Superannuation Tax Offset were to be applied **firstly** the notional tax would be wiped out and the full \$1602 SATO would be transferable to the taxpayer.

These procedures have resulted in a serious reduction in the benefit of SATO to many Senior Australians funding their retirement through superannuation, annuities and allocated pensions.

It is AIR's contention that the unused SATO transferable from spouse to taxpayer should be determined **after** all other tax offsets have been applied to the spouse's income, rather than **before**, as is now ATO practice.

#### **Recommendation 3.6:**

***That the Australian Tax Office changes the method of determining unused SATO transfers by applying available tax offsets to the spouse's notional tax liability before calculating the amount to be transferred.***

### **3.7 Senior Australians Tax Offset – Eligible Termination Payment (ETP) and Taxable Income.**

In the case of Eligible Termination Payments (ETPs) the taxpayer is granted a tax free amount of \$112,405 (in 2003 tax year) for the post-June 83 taxed component of his ETP. This amount, however, is entered in the tax return as income and the ATO allows an offset to reduce the tax plus Medicare levy to zero.

The problem is that **taxable income** is used in the calculation of SATO and in most cases cancels the SATO.

This method would also affect the SATO calculation where the taxpayer commuted part of an Allocated Pension.

The suggested treatment to avoid this unintended consequence would be to disregard the tax-free component of the ETP and enter only the amount in excess of \$112,405.

This, then, would accord with the ATO treatment of the tax-free component of a redundancy payment (Code D on payment summary). This tax-free amount is not entered anywhere on the tax return.

#### **Recommendation 3.7:**

***That the Commonwealth Government direct the Australian Taxation Office to remove the tax-free component of an Eligible Termination Payment (or allocated pension) from the calculation of the Senior Australians Tax Offset.***



### **3.8 Capital Gains Tax and Enforced Asset Sales.**

There is a pressing need for special treatment of capital gains where assets such as shares or property are compulsorily acquired through the mechanisms of takeovers and resumptions and where the retiree is forced to accept a cash settlement for the asset. For retirees, these assets would normally be providing a living income. When capital gains tax liability arises as a result of the enforced sale of the asset, the discharge of that liability results in a reduction in the value of the retiree's asset and, hence, a reduction in the income generating capacity of the asset.

AIR recommends alteration to the law relating to capital gains tax in such a way as to defer tax liability if the cash settlement is used to acquire other income producing assets within a period of 3 months from the date of receipt of the cash arising from the enforced disposal of the asset.

The variation of the capital gains tax legislation in this way would be a natural extension of that applying to scrip-for-scrip transactions and to the sale and subsequent purchase of a small business where deferment rules apply.

#### **Recommendation 3.8:**

***That, where the compulsory sale of shares or other property held by Senior Australians results in a cash settlement and the cash is re-invested fully in income producing assets within 3 months of the disposal, capital gains tax liability be deferred until the ultimate disposal of these assets.***

### **3.9 Superannuation Rebate.**

For those retirees living on superannuation or allocated pensions and annuities, a situation can arise where the 15 percent superannuation rebate allowable exceeds any taxation liability. The position is somewhat analogous to the previous loss of excess imputation credits.

The rebate was intended to refund the 15 percent contributions tax paid when premiums were paid into the superannuation fund from which the funds are now being used to make the regular payments to the recipient.

Any excess rebate available should be offset against the Medicare Levy liability and any residual, along with any excess imputation credits, refunded to the taxpayer.

#### **Recommendation 3.9:**

***That, where the 15 percent Superannuation Rebate exceeds the taxpayer's tax liability, any excess be offset against the Medicare Levy and any residual amount refunded to the taxpayer.***

### **3.10 PAYG Compliance**

In February 2001 the Federal Treasurer announced two significant changes to the PAYG instalment system:

Sole traders and partners in a partnership registered for GST are given the option to have their quarterly PAYG payments calculated for them by the ATO, on the basis of the previous available year's income adjusted by a GDP growth factor. This obviates the need for completion of a quarterly IAS for these individuals.

Taxpayers with a balance of annual tax payable on their last assessment of less than \$250 are taken out of the PAYG system and need only to pay tax on such income on an annual basis. The Treasurer claims that this measure will affect about 500,000 taxpayers, including many SFRs.

However, the measures fall well short of the degree of simplification that could, and should, have been introduced. Many people who were registered for GST or were partners in a partnership registered for GST will still be required to make quarterly returns.

In addition, under the pre-GST tax system, the tax liability for quarterly payment of provisional tax was \$8,000, translating to an annual taxable income of \$36,889 in the 2001/2002 tax year. The \$8,000 has been unchanged since 1<sup>st</sup> July 1989. AIR suggests that it should have been increased to \$12,000, roughly in line with the 58.2 percent increase in average male weekly ordinary time earnings since 1989 when the \$8,000 figure was introduced. The \$12,000 will represent tax at the new rates on an income of approximately \$50,000.

#### **Recommendation 3.10:**

***That the tax threshold for quarterly PAYG instalments (including those registered for GST and those who are partners in a partnership registered for GST) be increased immediately to \$12,000 and adjusted each year by the GDP growth factor.***

### **3.11 Income Splitting.**

The Government has recognised the need for a better Superannuation system, of retirement planning and savings for the years ahead. The traditional Australian value of self-reliance when applied to retirement planning can both improve an individual's personal circumstances and vitally contribute to Australia's ongoing national prosperity. As part of the Government's policy statement "A Better Superannuation System" released on 5 November 2001, Mr Howard said his government has recognised the need for "allowing couples to split their superannuation contributions'. A position paper has been circulated and legislation is expected to be introduced by 1 July 2003, permitting contributions being split between couples. The Coalition said it is committed to assisting families to maximise the benefits available in superannuation benefits equally. This is particularly important for families where one spouse is working in the home or receiving a low income.

Amendments to the Family Law Act which came into effect on 31 December 2002 now provide for the Courts to deal with superannuation so that the Courts will be able to make "splitting orders". These orders will allow the entitlement to be split and a portion assigned to the other spouse, who can then transfer the funds into another superannuation fund.

However, no recommendation has been made for those self-funded people already in retirement.

- Self-funded retirees should be permitted to re-arrange their assets to balance the incomes applicable to each member of the retiree couple;
- This procedure is a normal arrangement for Financial Advisers to recommend to clients and is perfectly legitimate.
- In all instances each partner is entitled to a portion of this money if the relationship is dissolved.
- If the superannuant dies, the surviving partner is entitled to all or at least 5/8ths of the superannuation pension for life.

#### **Recommendation 3.11:**

***That recipients of income from superannuation funds and/or pension schemes in which the recipient has no control over the disposition of the payout be permitted to split the income with his/her partner for income tax purposes.***

### **3.12 Superannuation Surcharge.**

The Government has recognised that the Superannuation Surcharge is inhibiting and does not encourage Australians to save for their retirement. A statement was made by the Government, promising that the surcharge would be reduced from 1<sup>st</sup> July, 2002. However, the Senate blocked this move and it now appears unlikely that the proposed change will occur.

The Senate Select Committee also recommended changes to the surcharge and A.I.R supports any changes that will increase superannuation savings. In particular, we recommend the total abolition of this tax. A.I.R. recommends that the surcharge only apply to the amounts above the threshold.

#### **Recommendation 3.12:**

***That the superannuation surcharge tax apply only to the amount above the threshold.***

### **3.13 Superannuation Contribution Tax.**

Australia's superannuation system has many faults and it is among the most complex and heavily taxed in the world. A.I.R. believes that the Government needs to provide sufficient incentives for people to voluntarily contribute more to superannuation during their employment so that a more adequate retirement income can be generated.

A.I.R. acknowledges that superannuation funds provide a most effective investment strategy for retirement.

There are several critical issues that need attention:

- Adequacy of provision;
- Reduction in complexity of taxes on superannuation;
- The rules need to be simple and transparent;
- The application of the law needs to be equitable and efficient;
- Retirees should be encouraged to make full use of their retirement savings.

The first two points have one simple solution: superannuation should be taxed once only when benefits are taken.

The tax on contributions gives the government \$2.5 billion in revenue which is equal to the cost of a \$6.00 pw tax cut. However, unlike a normal tax cut, such a reduction in tax would boost private savings and immediately move to reduce the growing debt Australia will face with an ageing population and the subsequent greater demand for welfare.

The focus needs to be on reducing the taxes on superannuation.

#### **Recommendation 3.13:**

***That the superannuation contribution tax be phased out by a 3 percent per annum reduction in the rate over the next five years.***

### **3.14 Superannuation Guarantee Levy (SGL).**

The average worker on \$40,000 per annum, saving 9% super guarantee for 30 years, will get approximately \$19,000 per annum including the age pension. This will mean that, if the worker is 20 years in retirement, the pension will not meet even minimum expectations.

The current SGL rate is not sufficient to provide for the minimum retirement income most people expect. People think that they have planned for retirement but the reality is likely to fall far short of their expectations. Estimates of the needs of the 'baby boom' generation indicate an annual requirement for approximately \$30,000. To date, there is no generally **agreed target or benchmark** in Australia.

A.I.R. considers a savings rate of 12%–15% for 30 years through superannuation contributions would be closer to the mark. There is evidence that a majority of people (65%) supports the need to lift the SG to 12–15%. A.I.R. sees this extra step to lift the SGL over 9% as being a joint responsibility of the employer and the employee.

#### **Recommendation 3.14:**

***That legislation be amended to increase the Superannuation Guarantee from 9% (1 July 2002 rate) to 15% and that this increase take effect over the period 1 July 2003 to 30 June 2009 and be at the rate of 1% per year, 0.5% being employee contributions and 0.5% employer contributions.***