Chapter 1

Introduction

Background

1.1 On 7 December 2006 the Senate referred the provisions of the Tax Laws Amendment (Simplified Superannuation) Bill 2006 and five related bills to the Senate Standing Committee on Economics for inquiry and report by 6 February 2007.[1]

1.2 The bills implement the package of reforms to simplify and streamline superannuation released as part of the 2006–07 Budget on 9 May 2006. The proposals, which are due to take effect from 1 July 2007,[2] represent the most significant reform to the superannuation system in decades. They will potentially affect over 10 million individuals, 1.3 million employers and more than 310,000 superannuation funds. The cost of the reforms, including additional costs associated with the transitional and administrative arrangements announced by the government in September 2006, is estimated at $7.2 billion over four years, which is less than one per cent of Commonwealth government revenue.

1.3 The Treasurer's Budget announcement stressed that the proposals will reduce complexity, increase certainty and restore confidence in the superannuation system:

> The complexity associated with taxing superannuation benefits confuses retirement decisions, clouds the incentive to invest in superannuation and imposes unnecessary costs… Government
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> As a result of decisions made by the then in 1988, the current superannuation system has different arrangements for tax on contributions, earnings and superannuation benefits. Superannuation benefits tax is by far the most complicated, as highlighted by the Regulation Taskforce. For example, a lump sum superannuation benefit may include up to eight different parts which can be taxed in seven different ways. If people can not understand what they will receive from their superannuation in retirement, they will not have confidence in the system.[3]

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1 Superannuation (Excess Concessional Contribution Tax) Bill 2006; Superannuation (Excess Non-concessional Contribution Tax) Bill 2006; Superannuation (Excess Untaxed Roll-over Amounts Tax) Bill 2006; Superannuation (Departing Australia Superannuation Payments Tax) Bill 2006; and Superannuation (Self Managed Superannuation Funds) Supervisory Levy Amendment Bill 2006.

2 Limits on non-concessional contributions applied from 10 May 2006. The revised age pension arrangements will commence on 20 September 2007.

3 'A plan to simplify and streamline superannuation', Press Release, the Hon. Peter Costello MP, 9 May 2006.

1.4 The Treasurer's Budget announcement was accompanied by a detailed consultation paper providing an outline of the proposed changes, describing how the new system would operate and inviting public comment on the changes.[4] During the three month consultation process, Treasury received more than 1500 written submissions and 3500 phone calls and government officials met with representatives of the superannuation industry and related bodies. In September 2006, the government released a final proposals paper which described the outcome of the consultation process.[5] The government confirmed that it would proceed with key changes included in the initial plan and with arrangements to make the transition to the new system easier, improve administration and improve the integrity of the superannuation system.[6]

1.5 The government announced that regulations supporting the bills will be introduced after they receive Royal Assent. Consequential amendments, including the formal repeal of old laws, will be included in another bill to be introduced in the Parliament in early 2007.

Conduct of the inquiry

1.6 The committee advertised the inquiry in the *Australian* newspaper on 12 December and invited written submissions by 15 January 2007. Details of the inquiry, the bills and associated documents were placed on the committee's website. The committee also wrote to a number of organisations and stakeholder groups inviting written submissions.

1.7 The committee received 21 submissions and 9 pieces of correspondence. A public hearing was held in Canberra on 30 January 2007. Witnesses included representatives from superannuation industry associations, accounting professionals, Treasury and Australian Tax Office (ATO) officials and private individuals. The committee explored with witnesses areas of concern contained in written submissions, including concerns that had previously been raised with the government following the announcement of the reforms in May 2006.

1.8 This report reflects the committee's approach. The remainder of Chapter 1 summarises the policy objectives and key elements of the legislation. Chapter 2 describes in detail the main provisions of the bills and how the new tax arrangements will work in practice. Chapter 3 examines a number of contentious issues raised in submissions to this inquiry, many of which were previously raised with Treasury as part of its consultation process held during the second half of 2006. The report concludes with the committee's findings and recommendations.

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4 *A Plan to Simplify and Streamline Superannuation: Detailed Outline*, The Treasury, May 2006.

5 *A Plan to Simplify and Streamline Superannuation: Outcomes of Consultation*, The Treasury, 5 September 2006.

6 A list of transitional arrangements is included in 'Simplified superannuation – final decisions', Press Release, the Hon. Peter Costello MP, 5 September 2006, p.2.

Purpose and objectives of the bills

1.9 The changes included in this omnibus legislation are considered necessary against the backdrop of a superannuation system which has become increasingly complicated and difficult to navigate, as a result of changes to tax arrangements introduced over the last two decades. The government's press release announcing the introduction of the bills in Parliament stated that the reforms '…will sweep away the current raft of complex tax arrangements that apply to superannuation and cut the number of pages of superannuation law in the income tax assessment Acts by over a third'.[7]

1.10 To this end, the bills rewrite superannuation taxation law into the *Income Tax Assessment Act 1997* and consolidate provisions that are currently located in different parts of existing legislation and which are in no logical sequence. The Explanatory Memorandum states:

> This rewrite provides a clearer picture of the taxation treatment of superannuation savings across the life of the superannuation investment: when the money is contributed; during the investment phase; and at the end benefit payment phase, and provides a consistent style.[8]

1.11 This improvement will present a clear and logical picture of the taxation of superannuation. The best example of this simplification relates to the tax treatment on superannuation benefits for the more than 90 per cent of people in taxed superannuation schemes. Under new subdivision 301-B of the simplified superannuation bill, the tax treatment on superannuation benefits is covered in one simple paragraph.

1.12 The detailed outline released by the government in May 2006 stated that the proposals would simplify superannuation arrangements for retirees and make them easier to understand, improve incentives to work and save, and introduce greater flexibility in how superannuation savings can be drawn down in retirement. The overriding policy objectives for the more than 10 million Australians with superannuation accounts and future account holders are to sustain workforce participation, increase retirement savings and simplify tax arrangements on superannuation.[9] The Treasurer's second reading speech provided a fuller explanation of the policy objectives:

> The simplified superannuation reforms will encourage people to take a greater interest in their superannuation and give people greater confidence to make additional savings. The earlier people contribute, the greater the

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7 'Simplified superannuation legislation introduced into Parliament', Joint Press Release, Treasurer, Minister for Revenue and Assistant Treasurer, 7 December 2006.

8 Tax Laws Amendment (Simplified Superannuation) Bill 2006 and related bills, Explanatory Memorandum, p.5.

9 *A Plan to Simplify and Streamline Superannuation: Detailed Outline*, The Treasury, May 2006, p.vii.

> benefits they will be able to reap from the low-tax and long term investment environment available in the superannuation system.
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> The amendments in the [Simplified Superannuation Bill 2006] are also an important part of the Government's commitment to reduce the complexity of the tax law, regulatory burdens and compliance costs faced by taxpayers.[10]

1.13 The government has stressed the significance of the reforms included in the proposed legislation. As the Treasurer has stated, the bills represent a substantial investment by the government in the living standards of Australians in retirement and in addressing the challenges of an ageing population. The changes also form an important part of the government's response to the report of the Taskforce on Reducing Regulatory Burdens on Business, *Rethinking Regulation*, which recommended that high priority be given to simplifying the tax rules for superannuation. In its submission, the Association of Superannuation Funds of Australia endorsed the government's proposal as 'represent[ing] a major simplification of the superannuation system.'[11]

Simplified superannuation: summary of main proposals

1.14 The centrepiece of the simplified superannuation bill is that superannuation benefits paid from a taxed fund, either as a lump sum or as an income stream such as a pension, will be tax free for people aged 60 and over. The bills will also introduce other key measures:

- reasonable benefit limits (RBLs) will be abolished;
- individuals will have greater flexibility as to how and when to draw down their superannuation in retirement. There will be no forced payment of superannuation benefits;
- age-based restrictions limiting tax deductible superannuation contributions will be replaced with a streamlined set of rules including:
  - the level of contributions to superannuation receiving concessional tax treatment will be limited to $50,000 per person per financial year;
  - personal superannuation contributions from an individual's post-tax income will be limited to $150,000 per financial year or $450,000 for a three year period;
- the self-employed will be able to claim a full deduction for their superannuation contributions as well as being eligible for the government co-contribution for their after-tax contributions;

10 The Hon. Peter Costello MP, Second Reading Speech, Tax Laws Amendment (Simplified Superannuation) Bill 2006, 7 December 2006.

11 Association of Superannuation Funds of Australia, *Submission 6*, p. 1.

- the ability to make deductible superannuation contributions will be extended up to age 75;
- the pension assets test taper rate will be halved to $1.50 per fortnight for every $1000 of assets above the relevant threshold; and
- individuals will have until 30 June 2008 to quote their tax file number (TFN) before the highest marginal tax rate is imposed on concessional contributions.

1.15 When the simplified superannuation and related bills were introduced in the Parliament, the Treasurer announced a series of measures to enhance the policy and administrative framework to ensure that individuals receive the full benefit from their superannuation savings (see Chapter 2 for details). These measures will make it easier for people to find and transfer their superannuation between funds.

1.16 The government in addition will take full responsibility for the management of unclaimed, or lost, superannuation which means that in future unclaimed superannuation money will not be paid to the states and territories.[12] The ATO will be provided with a significant increase in resources to reduce the amount of money held in lost accounts and provide individuals with advice on superannuation-related issues. According to the Treasurer, this new measure:

> …is consistent with the arrangements for lost superannuation and provides a single access point for individuals searching for lost or unclaimed superannuation and a simpler nationalised claims process going forward. As a result, individuals will be able to seek advice directly from the ATO on any superannuation-related issue, without having to contact numerous government agencies.[13]

12 This change will not affect state and territory superannuation schemes.

13 The Hon. Peter Costello MP, Second Reading Speech, Tax Laws Amendment (Simplified Superannuation) Bill 2006, 7 December 2006.