Additional Remarks

Senator Andrew Murray: Australian Democrats

Senate Standing Committee on Economics: Inquiry into the Tax Laws Amendment (Simplified Superannuation) Bill 2006 and five related bills

The Bills

1.1 The Tax Laws Amendment (Simplified Superannuation) Bill 2006 and five related bills implement the Coalition Government's simplified superannuation reforms announced in the 2006 Budget. They are sweeping reforms, and as the main report notes, they will potentially (and materially) affect over 10 million people, 1.3 million employers and more than 310 000 superannuation funds. The new system will apply from 1 July 2007.

Summary of my conclusions

1.2 I have titled this minority report 'Additional Remarks' because I support the Committee Report and do not dissent from it. I welcome the Government's package as a genuine attempt not only to simplify and streamline a complex system, but to provide considerable incentives to encourage increased levels of work and saving.

1.3 That does not mean that I am without caution. In part, that caution is prompted by the difficulty I have in fully assessing the consequences of these changes. Unlike the 'New Tax System' that brought in the GST and related reforms, there is a decided lack of modelling, cameos and detailed projections from the Treasurer and Treasury. Treasury has not provided a long range forecast of tax revenue effects beyond the forward estimates period, which is obviously needed, so there is much uncertainty as to how these measures will affect Australia's financial future.

1.4 In part my caution arises from the question of priority. Is spending $7.2 billion on superannuation over the next four years the right priority? That is a hard question to answer, given the competing demands on taxpayer funds. By their nature, these reforms are selective in impact. Not everyone benefits or benefits equally. Taxpayers over 60 years of age will benefit most, and wealthier retirees will benefit more than the less wealthy.[1] In my opinion these are not faults of themselves. What is important is whether there are strong compensating programmes and reforms that will significantly improve the lot of Australians who are not in these retirement categories.

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[1] For example, the Australian Council of Social Service highlighted its concern that wealthy Australians were the true beneficiaries from provisions contained with the Bill thereby perpetuating 'income inequality in retirement'. Australian Council of Social Service, *Submission 21*, p. 21.

1.5 In part too, my caution is prompted by the sense of a lack of policy balance. These reforms will benefit many Australians, but will particularly benefit better-off Australians. Policy balance and equity requires structural reform in the rest of the income tax system, particularly to benefit low and middle income earners, that should accompany and follow these superannuation tax reforms.

1.6 While recognising that Australians will be grateful for tax relief provided in the 2006 Budget, the Democrats are disappointed that the Government has failed to provide a strategic income tax reform plan. Structural tax reform is essential to make the tax system simpler, fairer and transparent. Our income tax system is complex, inequitable and inefficient. It is widely criticised for its churning effect.

1.7 The Treasurer has adjusted rates and thresholds within the existing system. He needs to change the system to be simpler, broader based and more equitable. The Democrats say a structural income tax reform plan should include raising the tax free threshold significantly to take millions of Australians out of the income tax system; indexing the rates to account for bracket creep; broadening the base by cutting out tax concessions that are inequitable, inefficient, outdated, unnecessary, or distortionary; reforming the tax welfare intersects to encourage welfare to work and remove inequities; and ensuring nominal and effective tax rates remain fair and competitive.

1.8 One frequently expressed concern has been the large potential revenue foregone as a result of this reform. I have however been intrigued by the prospect of this reform being a large revenue-earner, rather than a large revenue-loser. Unfortunately I do not have the means to model this theory, but I will cover these thoughts briefly below.

Is this 'super' reform also going to be a big revenue earner?

1.9 Demographically speaking, we are an ageing population. This social phenomenon throughout the developed world presents a number of specific challenges. Perhaps the most challenging of these challenges is the means by which an increasing number of retirees are able to fund their existence at an affordable public cost.

1.10 The combination of retirement, an ageing population and retirement funding dilemmas are all inextricably linked. The role of Government in managing this complex socioeconomic trend is twofold. It must ensure policies and regulatory mechanisms are in place to enable Australians to effectively save for their retirement, whilst at the same time ensuring that increased concessions to superannuation do not jeopardise future government revenue that will pay for our nation’s healthcare, education, infrastructure and other expenses.

1.11 Has the Tax Laws Amendment (Simplified Superannuation) Bill 2006 and related bills struck the right balance? Does it offer the best system to partly and wholly self-funded retirees, low income pensioners and taxpayers alike? How will it fit within Australia’s regulatory and tax framework?

1.12 Time will tell.

1.13 Striking a balance between protecting taxation revenue and establishing taxation concessions to encourage Australians to save for their retirement is a delicate, difficult and important task. Although not immediately obvious, this trade-off is representative of the socioeconomic divide that continues to grow within our nation.

1.14 On the one side of the divide exists Wealthy Australia that is empowered to save for their future through a superannuation system that is now well designed for this purpose. On the other side of the divide is Low Income Australia, in retirement reliant upon welfare via a means tested general age pension.

1.15 To fund the retirees of Low Income Australia and to subsidise the retirees of Wealthy Australia, taxes must be generated. The critical issue with regard to this funding dilemma is how the Government proposes to generate the requisite tax income from a projected shrinking taxable working population, to meet the expenses of a retiring population which is forecast to grow substantially.

1.16 The prospect of raising corporate or personal income taxes on a tax base maintained by a smaller proportion of the population is an alternative that is both politically unsavoury and economically unviable.

1.17 A more politically and economically sound alternative is to generate additional tax revenue through incentives to encourage Australians to save for retirement and to work beyond the traditional retirement age of 60.

1.18 Core measures contained within this bill such as the removal of taxation on superannuation benefits from taxed funds after 60 years of age and scrapping the compulsory superannuation payout provisions certainly encourage Australians to work longer and save harder, but this is only half of the story.

1.19 While many of the provisions contained within this bill will encourage more savings to flow into superannuation accounts and Australians working longer will delay the shrinking tax base, the problem that must ultimately be faced by Government is how to fund a growing unfunded general age pension and how to subsidise the growing cost of our hospitals, schools, roads, ports and other resources upon which Australians universally depend.

1.20 Does this 'Simplified Super' bill possibly establish a channel that can, in part, bridge the divide between rich and poor Australia? Surprisingly, and from a counter-intuitive perspective the answer to this question could be yes.

1.21 By removing the benefits tax on superannuation which only applies to wealthy retirees and making a number of other structural changes, the Government is also removing a significant hurdle to investment in superannuation. With significantly greater investment in superannuation the Government could stand to gain substantially from taxation revenue through both the once-off contributions tax, and a tax on earnings with concessional rates of 15 per cent, at an estimated 7.1 per cent[2] return respectively.

1.22 This could mean that with money pouring into super and a vast sum of money invested, (which will grow to 'trillions'), the Government has potentially crafted a growing ‘taxable’ base that could dwarf the present personal income tax base.

1.23 The generosity and clarity of the ‘Simple Super’ bill is intended to encourage a massive injection of funds into superannuation, which could turn out to be a very significant revenue earner. In turn it could provide the mechanism by which the Government proposes funding the ‘savings gap’ of low income retirees and the accompanying plethora of subsidised social costs.

1.24 An obvious question arises: if this is so, why has the Government not expounded more on the forecast growth of investment (and therefore tax revenue) in superannuation as a result of the changes contained within the ‘Simple Super’ bill?

1.25 The answer may be a simple one – until the behavioural effects become apparent, one would have to be cautious in predicting the consequence of enhanced saving investment, particularly if it is thought the investment effect might be modest if funds are simply switched from existing investment vehicles to others in superannuation.

1.26 Scrapping the benefits tax and cleaning up the legislation are the two big ‘carrots’ that have been proffered, both of which could carry a negligible expense relative to the tax gains that stand to be made from a burgeoning and taxable national superannuation pool. Maybe this is the government’s secret future cash cow. Maybe not.

1.27 Time will tell.

1.28 From a big picture perspective, what Australia could progressively experience is a conversion from a taxation system focused on revenue raising via personal incomes with a tax base estimated at $450 billion presently,[3] to an increased reliance on a superannuation system forecast to have $2 trillion plus under management by 2015 and growing rapidly. The system works because superannuation is a function of both personal income and growing capital; it is a much bigger taxable base, so that it can be taxed at a lower 'concessional' rate and still cover the forecast shortfall in personal income tax raised.

1.29 If this thesis is accurate, then the ‘Simple Super’ Bill has struck an adequate balance between encouraging more work, and encouraging those that can save for their retirement to do so, whilst at the same time preserving the means to raise taxation revenue to meet forecast welfare and social costs.

2 Treasury estimate after considering dividend imputation etc.

3 Australian Taxation Office, Taxation Statistics 2003–2004.

1.30 Neither Government nor the Explanatory Memorandum has attempted to discuss this possibility. Understandably, the Government is focusing on what taxpayers stand to gain rather than what they may lose in the form of future increased taxation revenue. Broadcasting the value and importance of the national superannuation pool as a potentially progressively more important source of taxation is not likely to be part of the Governments 'spin', particularly if such potential gains are uncertain at this stage.

1.31 I am of the view that the superannuation system, by its very design, is structured to serve Australians with incomes substantial enough to set aside funds for retirement. This is the essence of self-funded retirement. For low and low-to-middle income Australians, their reliance on the superannuation system will be of a very different nature. Their pension will, indirectly, be reliant upon the same system for the taxation returns that the reformed system offers, as opposed to the generation of an income stream substantial enough to self-fund their retirement.

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