15 January 2007.

Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra
ACT 2600

Dear Mr Hallahan,

Re: Tax Laws Amendment (Simplified Superannuation) Bill 2006

In response to your invitation to submit to your Committee's inquiry on this Bill, ACOSS would like to make the following brief points, and table for the Committee's consideration the attached more detailed submission to the Treasury on the Government's proposed 'Simplified Superannuation' package.

We welcome efforts to simplify Australia's very complex system of tax and regulatory treatment of superannuation benefits. The present tax treatment of superannuation needs comprehensive reform. The tax treatment of benefits, for example, is the product of years of ad-hoc reform, rather than a set of coherent objectives and design principles. It is not achieving the goals it was designed to address. To the extent that the proposed changes to taxes on benefits paid to retirees aged 60 years or over encourage people to retire at that age or later, they may also help boost workforce participation among mature age people. This is desirable in the context of population ageing.

However, the proposed changes will have substantial and long lasting effects on future public revenues, inequality of retirement incomes, retirement saving decisions, and the integrity of the income tax system. We therefore recommend that the proposed changes should be carefully measured, evaluated, and addressed before the changes are implemented:

- The proposed removal of most taxes from superannuation benefits paid after the age of 60 years could substantially reduce *future public revenues* that will be needed to provide services and support for an ageing population. Unfortunately no projections have been provided of the likely impact of the changes in 20 to 30 year's time, as has been done in other areas of policy such as income support in the Intergenerational Report. This information is essential so that the Parliament can properly consider these Bills. The greatest impacts on future tax revenues are likely to be *indirect* effects, arising from the incentives in the package to shift assets and income from taxed environments such as labour income and direct ownership of shares into the untaxed (or lower taxed) environment of superannuation.

- Treasury's modeling of the effects of the proposed changes on retirees with different levels of incomes and assets shows that they would increase *income inequality in retirement*. For example, most current low and middle income retirees would not benefit significantly from the removal of taxes from benefits because their superannuation income falls below the thresholds at which taxes on benefits currently take effect. However, there are substantial tax savings for the present cohort of high income retirees. While this is not a reason in itself to reject the package, their effects on income distribution should be fully modelled so that the Parliament can consider changes to offset any likely increase in income inequality that might be identified.

- The proposed changes are not well designed to boost *overall levels of saving for retirement*, since high income earners can readily take advantage of the proposed new tax treatment of superannuation benefits by shifting their existing savings into the superannuation environment. Low and middle income earners, who are less likely to save in the absence of tax incentives, will derive much less benefit from the changes. This applies particularly to the present cohort of low and middle income earners.

In our submission to Treasury, ACOSS suggested a number of broader reforms to superannuation and income taxation that could complement the proposed simplification of superannuation benefits while at the same time easing the potential adverse effects noted above. These include:

- Replacement of the present complex and inequitable *tax concessions for superannuation contributions* with a simple annual tax offset that would boost public support for retirement saving by low and middle income earners while reducing opportunities for high income earners to shelter their income from tax through superannuation, including opportunities arising from the proposed changes to the tax treatment of benefits. This would extend and complete the simplification of superannuation.

- A broader review of tax concessions for mature age people, in the context of the growing need for health and community services, and the declining public revenue base, as the population ages.

- Measures to reduce incentives in the package to take superannuation in the form of large lump sum payments.

I trust that our submission assists the Committee in its important work. Should you have any queries about the submission, please contact me, or our Senior Policy Officer Peter Davidson, at this address.

Yours sincerely

Andrew Johnson
Director