Chapter 8

Annual Taxation Measures

Introduction

8.1 Much of the evidence on equity measures focused on the suitability of annual fund level accumulation phase tax arrangements as opposed to end benefit taxation arrangements.

8.2 This chapter examines the evidence that was provided to the inquiry about those annual fund level accumulation phase tax arrangements that apply (or could apply) uniformly to all members. These are:

- generic fund level taxes:
  - contributions tax;
  - earnings tax;
- rebates for individuals rather than generic fund level taxes; and
- maximum deductible contributions.

8.3 The surcharge tax applying to contributions in respect of high income earners will be considered in the next chapter.

Generic fund level taxes

Background

8.4 In the Australian system since 1988 superannuation is taxed at three points – when the contribution is made, on the earnings, and at the time of payment. Before 1988 there were no contributions or earnings taxes and only five per cent of any lump sum was included in the assessable income of the individual.

8.5 Where a person has employer support, superannuation contributions and earnings are taxed at a notional 15 per cent in the hands of the receiving fund. The 15 per cent rate is reduced for any tax offsets such as dividend franking credits on Australian shares and other fund tax deductions. Provided that these contributions are within the employees' annual age-based contribution limits, the contributions are fully deductible to the contributing employer.

8.6 The contributions made by the self-employed are taxed differently. The first $5,000 of annual contributions are deductible as are 75 per cent of any additional contributions that are within the individual's reasonable benefit limits (RBLs). Fund earnings are taxed in the same way as for employees.

8.7 The Committee notes that, according to commentators such as Mr Ross Clare from ASFA, that there appears to have been an increasing amount of science and less ‘black arts’ in forecasting tax revenues collected from superannuation funds.[1]

Summary of views

8.8 During the inquiry, many commentators argued that there should be a move away from front-end contributions and fund earnings taxes towards benefit end taxes. For example, the Australian Bankers’ Association (ABA) submitted such a move should be made on simplicity and efficiency grounds. The ABA noted in this context:

- The pre-1988 system was simple and efficient (namely, the ‘expenditure’ or benefit–stage taxation system) and is the global standard for taxing retirement (pension or superannuation fund) saving;[2]
- Had Australia retained it, many of the complications now in our system would have been avoided. For example, there would be no need for the entire apparatus of benefit and contribution limits if people were taxed only on benefits, and at ordinary progressive income tax rates — perhaps with some allowance for taking a lump sum without going into a higher tax bracket;
- The system would then be both fairer and more efficient. The asset pool would be many billions of dollars greater and on–going national saving flows would be significantly higher. Future Budgets would have greater capacity to meet the needs of our ageing population.[3]

8.9 The Investment and Financial Services Association (IFSA) has also long supported the wind-back of front-end taxes, and made the following important points about intergenerational equity in its written submission:

> We also note that the 1988 changes to the taxation of superannuation represented a bring-forward of future taxation revenues from retirement savings. As the IGR shows, there is a greater need for taxation revenues out into 2030 and beyond than there is in 2002 and the current forward estimates period. Unwinding some of the tax bring-forward achieved by the current rules, and returning that revenue to future years, would ameliorate some of the future fiscal drain outlined in the intergenerational report.

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1 Ross Clare, Principal Researcher, ASFA, *Estimating the revenue impact of superannuation tax changes – weird science or black art?*, paper presented to the Tenth Annual Colloquium of Superannuation Researchers, University of New South Wales, June 2002.

2 See footnote in ABA submission: ‘The question of how best to tax retirement saving — and saving in general, particularly long–term saving — was canvassed in *National Saving: A Report to the Treasurer*, *op.cit*., Section 4.3, p 65ff. The contributions and earnings tax can have a significant impact on final super benefits. ASFA estimated someone on $40,000 a year will get $50,000 less payout in today’s dollars (assuming 9 per cent SG and a 30 year savings period). The impact is almost double if the savings period is 40 years, not 30 (see 19/11/01 Money Manager, The Age).’ See *Submission* 51, ABA, p. 21.

3 *Submission* 51, ABA, p. 21.

> Gradual removal of front–end taxes could increase adequacy for future generations of retirees without sudden and significant fiscal impact on Commonwealth revenue.[4]

8.10 The Institute of Actuaries of Australia (IAA) also called for a move away from front-end taxes and suggested that these taxes could be capped, although the IAA did acknowledge that such a cap is likely to be difficult to implement in practice. Nonetheless, the IAA submitted that this capping proposal could maintain current revenue:

- The Government could consider capping superannuation taxes as a percentage of Gross Domestic Product. This would allow the Government to maintain existing revenue in real terms but limit the increase in superannuation taxes;
- Removal of contribution taxes would have a similar impact to raising the superannuation guarantee (SG) contribution rate, however it would not create any additional cost impost for employers. Changing the structure of superannuation taxes away from contributions towards end benefits could also be used to provide further incentives for voluntary superannuation savings to supplement compulsory SG benefits.[5]

8.11 The Association of Superannuation Funds of Australia (ASFA) made the link between the impact of the contributions tax and end benefits by suggesting that removing the contributions tax would reduce the extra amount of contributions needed to achieve 60 per cent of pre-retirement income by two to three percentage points. According to ASFA, this is more or less equivalent to the impact of an additional three per cent employer contribution or a slightly smaller percentage member contribution out of after-tax income.[6]

8.12 ASFA noted that it would be very difficult to implement a full removal of the contributions tax in any one year because of the effect on revenue. To address this issue, ASFA made the suggestion to gradually reduce the contributions tax over a ten year period starting, for example, in 2003-04, and that

> … (t)he continuing reductions in the rate of the tax could be built into the forward estimates on an ongoing basis.[7]

8.13 ASFA noted that both the Government and the Labor Party have put forward proposals to cut tax on contributions to some degree. The Government is proposing to progressively cut the rate of the surcharge from 15 per cent to 10.5 per cent over the next three years. The Labor Party, in its response to the 2002-03 Budget, has put forward proposals to either cut the superannuation contributions tax for all fund

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4 *Submission* 70, IFSA, p. 12.

5 *Submission* 74, IAA, p.12.

6 *Submission* 73, ASFA, p.55.

7 *Submission* 73, ASFA, p. 59.

members from 15 per cent to 13 per cent, or, as an alternative to cut the tax to 11.5 per cent for people aged over 40.[8]

8.14 ASFA also advised that it would welcome any measures that would cut the taxation imposed on contributions as, in the view of ASFA, both the standard contributions tax and the surcharge are inefficient and inequitable taxes. However, the Association suggested that these proposals be extended by moving to complete abolition over a period of time, say, ten years. Depending on the budget surplus in years ahead, and the availability of additional tax revenue from measures such as crystallising the tax on pre-1983 entitlements, it may be possible to remove the contributions tax over a shorter period than ten years.[9]

8.15 ASFA also submitted that:

- It also should be noted that removing contributions tax would lead to additional taxation receipts at the benefit stage as a consequence of the increase that would occur in the net contributions being credited to individual accounts;
- It also would facilitate greater equity in the taxation of superannuation, in that benefits could be taxed at the time of payment in line with the total amount accumulated and the circumstances of the individual when they receive the benefit. Taxing contributions is at best only a very rough if not rugged approach to achieving equity between individuals;
- In regard to options for partial removal, ASFA prefers a uniform cut for all fund members. ASFA acknowledges that applying different rates of tax to contributions according to the age of the member on whose behalf contributions were made would have the potential to boost the retirement savings of the age groups targeted. However, such a measure would involve considerable complexity in administration on the part of funds.[10]

8.16 CPA Australia (CPA) called for a review of superannuation taxation in the context of the recent changes that have been made to personal and business taxes:

> The 1987 bring forward of the 15% contributions tax and the 1996 superannuation surcharge when combined with the most recent round of income tax cuts for individuals and companies have seriously undermined the relative tax effectiveness of superannuation.[11]

8.17 The Institute of Chartered Accountants in Australia (ICAA),[12] the Australian Medical Association (AMA),[13] the Financial Services Consumer Policy Centre

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8 *Submission* 73, ASFA, p. 60.

9 *Submission* 73, ASFA, p. 60.

10 *Submission* 73, ASFA, p. 60.

11 *Submission* 43, CPA, p. 6.

12 *Submission* 31, ICAA, p. 2.

13 *Submission* 32, AMA, p.3.

(FSCPC),[14] the Taxation Institute of Australia (TIA),[15] Catholic Health Australia (CHA),[16] the National Seniors' Association (NSA),[17] the Association of Independent Retirees (AIR)[18] and AMP Financial Services (AMP) also supported a move to end benefit taxation of superannuation. The AMP indicated that such an expenditure tax policy is adopted in many developed countries. AMP suggested that a move to end benefit taxes would promote additional voluntary superannuation savings, assist compound interest to work to increase final benefits, increase acceptance of compulsory superannuation, and encourage income stream benefits relative to lump sums.

8.18 In addition the AMP submitted that the removal of the fund earnings tax might dampen the incentive to retire early. The AMP noted that it is when retirement is a viable option that the earnings tax bites most severely, reducing the lifetime reward for working another year.[19]

8.19 The AMP also submitted that a benefits tax reduces the distortion that exists between the two largest investments that Australians are likely to make in their lifetime – housing and superannuation. According to the AMP, a policy of taxing superannuation and housing in a similar manner would potentially reduce over-investment in housing.[20]

8.20 In its supplementary submission, the AMP proposed the introduction of a withholding tax to make up the revenue shortfall associated with any move to an end benefit tax system:

- Adopting a withholding tax on contributions harnessed with a tax on withdrawals (a benefit tax) could partly address this shortfall. The combined impact of the two taxes leaves the retiree in the same net position as if they were only taxed on benefits at marginal rates;
- In its pure form, the equivalence with current tax revenue can be achieved by applying the benefits tax at a progressive rate, less the withholding tax rate, say set at 10 per cent, on a 'grossed up' base. The gross up is required to neutralise the impact on tax revenue of the reduction in payout caused by the withholding tax;
- Focusing on SG contributions made over the next 10 years by a man on average earnings, these should reach $42,361 (in addition to what is already in their

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14 *Submission* 50, FSCPC p.5.

15 *Submission* 54, TIA, p. 2.

16 *Submission* 45, CHA, p. 13.

17 *Submission* 60, NSA, p. 2.

18 *Submission* 16, AIR, p. 5.

19 *Submission* 64, AMP, p.10.

20 *Submission* 64, AMP, p.10.

account) with no change to tax policy. If a benefit tax (with a withholding tax rate of 10 per cent) is adopted, the super balance would grow to $45,976 in today's dollars, an improvement of nine per cent. The advantage of tax free compound interest can be seen for someone with an additional 20 years of saving. The superannuation benefit increases by 12 per cent;

- The individual is always better off under the withholding tax arrangement relative to the current superannuation tax arrangements.[21]

8.21 Dr FitzGerald made the important claim that the budget position if the front-end taxes were removed, would not be as bad as often advanced. In support of the proposal to move away from front-end taxes to end benefit taxes, Dr FitzGerald identified mechanisms that would have the potential to cushion the Budget in the following terms:

> … Partly the way to look at this is in accrual terms, although the accounting standards do not stretch this far. When the dependence of the budget on revenues raised now from superannuation, through the contributions tax and the tax on earnings, is compared with the situation of those revenues being collected later, the comparison typically gives no weight to revenues which will be collected beyond the next few years for budget purposes, for savings on the age pension in the future or any other effect like that. So the hole in the budget is not as big as it seems if it is properly viewed, because each year that you went forward there would be some taxes accruing to the budget to be collected in the future, admittedly beyond the forward estimates horizon. So if a long-term view of those accruals were considered, the hole in the budget is not as deep as it would appear. However, I concede that it is there.
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> Therefore, any move to put the tax back to the benefit stage—which you really have to do; it makes no sense in public policy terms to just take the contributions tax off and not compensate at the other end—means that to cover the budget hole in the meantime takes some design of the policy. The best proposal that I am aware of is one of the so-called roll-up proposals, where you would choose a transition date and at that date calculate, in every fund, the tax liability that each fund member would have if their benefits were drawn under retirement conditions at that date.
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> You would calculate all their tax liabilities and benefits at that date and then you would make those, or a selected proportion of them, payable in instalments to the budget over the following, say, five to seven years or some period like that, after which the budget would only be receiving taxes on the new basis. In other words, you would be bringing forward some of the tax that would otherwise be left to collect under the new basis and collecting it over the first five to seven years. The numbers, as I understand them having looked at this for a while, are such that you could actually largely fill the hole for long enough that the growth in superannuation would

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21 *Submission* 127, AMP, p.5.

> make the adjustment to the new tax arrangements quite manageable for the budget.[22]

8.22 The ABA submitted that in addition to achieving considerable simplification, any move away from front-end taxes to end benefit taxes would:

- significantly increase the material incentive to contribute — an incentive improvement concentrated at the point where the decision to contribute or not is made;
- facilitate a move to payment of benefits largely as income streams, either by
  - simply applying ordinary income taxation to all benefits, with at most a limited provision for taking part of a benefit as a lump sum. This would strongly encourage taking income streams (since significant lump sums would be taxed in the top tax bracket); or by
  - explicitly requiring payment of benefits (above some lump sum limit) in income stream form; and
- considerably improve the mesh between the superannuation and age pension systems. There would be less encouragement to retire early, draw a substantial part of the available benefit as a lump sum, use this to live on in early retirement then qualify for an age pension.[23]

8.23 The ABA acknowledged that a move away from front-end taxes to end benefit taxes would have significant revenue implications in the short term but, like Dr FitzGerald, noted the position is better in the longer term. The ABA advised the Committee that:

> Overall, as has been concluded in a number of analyses of this issue, the net present value of future tax collections is quite likely to increase. However the current model of accrual budgeting, as adopted by all Australian governments, does not bring to account the present value of the long–term effects of such policy changes, and indeed there is still excessive focus on *cash* Budget measures and *short–term* Budget impacts. In these terms, removing the contributions tax would reduce Budget inflows by around $2.5 billion p.a.[24]

8.24 While ABA believes that the long–term positive impacts on the Budget, for saving and for inter–generational equity should be given the fullest weight, it is nevertheless accepted by the ABA that the short–term Budget impact would need to be managed, by, for example, phasing in the proposed change or timing the change judiciously, that is, when there is capacity for tax cuts in some form.[25]

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22 *Committee Hansard*, 10 July 2002, pp. 292-293.

23 *Submission* 51, ABA, p. 23.

24 *Submission* 51, ABA, p. 24.

25 *Submission* 51, ABA, p. 24.

8.25 The Australian Institute of Superannuation Trustees (AIST) also supported a reduction of the front-end taxes. The Institute submitted that:

- The 15 per cent tax on contributions be phased out. The annual 'cost' to revenue, approximately $2.1 billion (if implemented in 2001-02), would have been about the same as a $6 per week tax cut but the rewards for individuals and the economy are far higher.[26]
- For an individual on average weekly earnings, about $40,000, abolishing the 15 per cent contributions tax, assuming 8 per cent earnings, would boost retirement savings by about $30,000 after 30 years of employment and $52,000 after 40 years of employment.[27]
- The removal of the contributions tax would improve tax equity, since the 15 per cent concessional rate is only slightly favourable for those on the lowest marginal rate of income tax, but more favourable to those on higher rates.[28]

8.26 The Financial Planning Association (FPA) also supported a move away from front-end taxes:

> The FPA further believes that the outcome for taxing super should be at the end point. This method ensures a greater accumulation of super, and more money for people to draw upon in retirement. It also ensures less complication in understanding the taxation of super, as it occurs only once, which in turn makes it attractive to consumers and reduces the administrative burden on the industry, (hopefully resulting in lower MERs). In other words, reducing barriers to effectively enter into the super system would encourage more people, especially younger Australians, to contribute to their retirement.[29]

8.27 The Australian Council of Trade Unions (ACTU) supported superannuation tax arrangements that assist the low and middle income group. Ms Rubinstein from the ACTU expanded on this position as follows at the Canberra roundtable discussion on 8 October 2002:

> … our position on equity issues is pretty well known. We believe that, to the extent that there is government support for superannuation, whether through tax concessions, rebates, co-contributions or whatever it might be, it ought to target the section of the community that is going to have the most difficulty in saving for retirement. By and large that is going to be low and middle income earners, not high-income earners.

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26 See footnote in AIST submission: 'Revenue implications of removing the contributions tax and recent developments in the tax attractiveness of superannuation', ASFA, September 2001. See *Submission* 10, AIST, p. 10.

27 See footnote in AIST submission: 'Retirement Futures Forum', March 2001. See *Submission* 10, AIST, p. 10.

28 *Submission* 10, AIST, p. 10

29 *Submission* 44, FPA, p. 7.

> … the taxation of superannuation could target low income people or people with small accumulations. There is something in that as well. You can put together a range of different factors, including age, income and accumulation. I do not know that that is simple, but certainly some tax changes of that nature could be looked at.
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> One idea which the Labor Party has floated is to reduce the contributions tax for people aged 40 and over. Those people, because of the relatively short time that most of them have been in superannuation—at best, 15 or 20 years—will not be able to accumulate anything like the targets that we have been talking about here. Contribution levels for most of that time will have been at considerably less than nine per cent. That would be one way of doing it. Other ways of doing it would be to increase mandatory contributions, whether from employers, from employees or some combination, but with tax rebates for or assistance with that, again to target low-income earners. [30]

8.28 The Australian Consumers' Association (ACA) broadly supported a move away from front-end taxes. However, the Association indicated that it would prefer a reduction in the contributions tax ahead of a reduction in the surcharge:

> However, while ACA broadly supports the reduction of front-end taxes on superannuation, to encourage fund growth and adequacy, we have expressed our concern at the reduction of the surcharge ahead of a reduction of the contributions tax.[31]

Committee view – generic fund level taxes

8.29 The Committee notes that the overwhelming majority of the evidence received during the inquiry supports the reduction or removal of the contributions tax in favour of taxing the end benefit.

8.30 The Committee would prefer a gradual move away from all up-front superannuation taxes so that, in the long term, tax would only be applied to superannuation benefits. The Committee considers that the growth in tax revenue on superannuation end benefits could be used to offset the reduction in revenue from the gradual removal of the contributions tax. In an ideal system the Committee considers that taxation equity is best achieved through the application of a progressive tax system on end benefits.

8.31 Accordingly the majority of the Committee considers that the time has arrived to take the first steps in this direction. The Committee notes that any reduction of the contributions tax will increase revenue from earnings taxes as accounts grow more quickly, and that any reduction in front-end tax has the potential to assist people to achieve an adequate replacement rate target. As noted above, the Committee

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30 *Committee Hansard*, 8 October 2002, pp. 687.

31 *Submission* 76, ACA, p. 7.

considers that end benefit taxes could be increased to compensate for any reduction in the contributions tax.

8.32 The Committee has been informed by peak industry bodies and commentators that a phased reduction in the contributions tax is the best approach to minimise the impact on the Budget.

Recommendation

8.33 **The majority of the Committee recommends that, in the long term, the superannuation contributions tax be gradually removed and replaced with a new approach to taxing end benefits.**

Rebates for individuals rather than generic fund level taxes

8.34 During the inquiry, some individuals and organisations took the view that equity considerations would be best served by removing the flat front-end taxes and replacing them with taxes and/or rebates at the individual member level. For example, Mr Christie, a financial planner from the Northern Territory, submitted that individual rebates should apply instead of the contributions tax. Mr Christie advised the Committee:

> I have suggested a tax collection system run through the income tax mechanism where SG and additional contributions are taxed at the member's marginal rate minus a rebate, and my first suggestion there was of 17 per cent. A member with income less than $20,000 but above $6,000 would not pay any tax on contributions under that model. So it is a fundamental rebate on one's normal taxable income. If the government feels it can reduce the surcharge for those on higher incomes, then such reduction should similarly apply to all others by increasing the rebate beyond 17 per cent, taking it to, for example, 21½ per cent, which would be the shift that the government has proposed with the rebate. This proposal removes the surcharge collection mechanism but preserves equity. I think that is the thing that would find great attraction in the superannuation industry. It also enables the self-employed, those who cannot salary sacrifice because their employer will not do it for them, and those who can salary sacrifice to be treated on the same basis.[32]

8.35 The ICAA supported a superannuation contributions system that is based on the earnings of the individual member. The Institute submitted that:

> A fairer and more equitable system would be to remove the contribution tax and apply the contributions tax in a similar manner to the surcharge on a sliding scale. This should be at a rate below the effective tax rate applicable to the contributor had the money been taken as income. Contributors could

32 *Committee Hansard*, 9 July 2002, pp. 88-89.

> be given the option of paying the taxes personally or from their superannuation fund.[33]

8.36 Cbus sought a reduction of superannuation taxes for low income earners through the provision of tax rebates which would be paid into their nominated superannuation fund.[34]

8.37 The Australian Council of Social Service (ACOSS) argued very strongly that the flat rate taxes are inefficient and inequitable as the progressive tax scale applied to income provides higher superannuation incentives to those on higher incomes. Accordingly ACOSS proposed a restructure involving the introduction of a Long-term Savings Rebate, which would be paid into the fund annually, to replace all existing tax concessions for contributions. Under this approach:

- Employer contributions would attract personal income tax in the hands of employers (through the Pay As You Go system) before they are transferred to the fund. Existing taxes on these contributions in the hands of the fund (the 15 per cent contributions tax and the superannuation surcharge) would be abolished;
- Contributions would attract the same annual rebate of tax regardless of their source, the income level of the individual concerned, and whether they are compulsory or voluntary.[35] The existing low-income employee contributions rebate, deductions for self-employed people, and spouse contributions rebate, would be abolished;
- The new rebate would be a percentage of contributions rather than a flat rate. The percentage would be high enough to support compulsory superannuation saving and encourage voluntary contributions, without raising the overall cost of tax concessions;
- The rebate would be capped on a flat dollar basis (not in proportion to individual earnings), to limit tax subsidies for high income-earners. The cap should be high enough to encourage low and middle income-earners to make voluntary contributions (beyond SG levels). It should be low enough to sharply reduce the generous tax subsidies for high income-earners, in order to ensure that the changes are revenue neutral in overall terms;
- The proposed rebate would have two tiers. At low contribution levels it would be a co-contribution. Above that, a rebate would apply up to the cap described above. For example, the rebate could be 100 per cent of contributions up to 0.5

33 *Submission* 31, ICAA, p. 2.

34 *Submission* 42, Cbus, p. 12.

35 See footnote in ACOSS submission: ‘In the case of defined benefit funds, a similar actuarial methodology to that which is currently used to calculate superannuation surcharge amounts could apply. See *Submission* 65, ACOSS, p. 26.

per cent of AWOTE, plus 20 per cent of additional contributions up to 11 per cent of average earnings;[36]

- The present tax treatment of fund earnings and benefits could remain in place. This means that the tax treatment of superannuation would still be highly concessional for high income-earners, due mainly to the flat 15 per cent tax on fund earnings;[37]
- The current tax treatment of benefits would also remain in place, except that lump sum retirement benefits above the level of the tax-free threshold for such benefits (currently $106,000) would either be prohibited or taxed at a penal rate. This would reduce 'leakage' of retirement savings and encourage greater use of complying pensions;
- Significantly, the new arrangements would only apply to contributions made after the date of their implementation. There would be no need for any grand-fathering arrangements.[38]

8.38 At the Canberra roundtable discussion on 8 October 2002, Dr David Knox cautioned against the ACOSS approach to the adoption of a long-term saving rebate solution because, in his view, it would introduce inequities in the same way that the surcharge does:

> … one of the equity issues we have not picked up here is the whole issue of inequity within the surcharge. The surcharge is a dog of a tax and we all know that. There are lots of inequities within in it, both for individuals who are subject to the surcharge and for individuals who are not subject to the surcharge.
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> Some of those inequities would, in fact, flow through and be similar to some of Peter Davidson's suggestions on fully taxing contributions. Whether you are in a defined benefits scheme or an unfunded scheme, there are inequities and assumptions that you are going to have to make. So I just put that on the table. If you were going to go down that route, you are actually adding complexity in inequities of a different sort, part of which we see in this surcharge.[39]

8.39 Instead of basing rebates on earnings, Dr Knox suggested in the written submission of PricewaterhouseCoopers (PwC) that member contributions could be

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36 See footnote in ACOSS submission: Since AWOTE was approximately $43,000 in February 2002, these contribution levels are currently $215 and $4,730 respectively. The 11 per cent of average earnings is based on the 8 per cent SG plus 3 per cent to encourage voluntary saving. On (t)his basis, the cap would rise to 12 per cent of AWOTE once the SG requirement reaches 9 per cent of earnings. See *Submission* 65, ACOSS, p. 27.

37 See footnote in ACOSS submission: 'Its cost to revenue is equivalent to that of the concessional 15 per cent tax rate on employer contributions. See *Submission* 65, ACOSS, p. 27.

38 *Submission* 65, ACOSS, p. 26.

39 *Committee Hansard*, 8 October 2002, p. 699.

refundable in certain circumstances. This approach would enable individual people with more scope to tailor retirement incomes in their own circumstances. He said in his submission:

- Initially, it is suggested that members' contributions from taxed income should receive a tax refund, up to a maximum contribution of $4,000 per annum, which represents about 10 per cent of the average wage;
- However such an all encompassing refund for member contributions is likely to provide a financial benefit to some members who are already contributing. In other words, it may be considered a 'free kick' without encouraging any behaviour change. It is therefore suggested that the rate used for the refund should decline with age;
- For example, the rate could be 30 per cent for those under 30 who contribute, 20 per cent for those aged 30-39 and 10 per cent for those aged 40-49. Such a scaling approach has several advantages:
  - It encourages saving amongst younger members thereby building a savings culture and pattern early in one's working career;
  - It encourages savings at ages where it generally does not occur in the current system. That is, it will encourage a change in behaviour and does not reward those who are over 50, many of whom are saving today;
  - It provides greater compensation for longer periods of preservation;
  - It limits the revenue cost to the Government; and
  - It provides some offset to the negative effects of the existing limits of Maximum Deductible Contributions for some younger members.
- The flexibility within this rebate approach could be expanded even further. Recently, the Assistant Treasurer, Senator Coonan has noted that 'interrupted careers and fragmented work patterns inhibit women's capacity to save for retirement;'
- It is therefore suggested that 50 per cent of any unused rebate be rolled forward to future years. Such a process expands the opportunity for those with fragmented careers but the reducing refund rate will also limit its ultimate cost and encourage contributions to be paid earlier and not later.[40]

Committee view – rebates for individuals

8.40 The Committee notes that, while some evidence suggested that individual member rebates were a fairer means of distributing superannuation tax concessions than the current contributions tax arrangements, most of the other evidence received on the issue suggested the removal of front-end taxes such as the contributions tax.

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40 *Submission* 27, PwC, p. 9.

8.41 The Committee notes that the taxation concessions from superannuation contributions increase as income increases. In other words low income earners receive a lower level of concession per dollar of contribution than higher income earners, even when the surcharge is factored in. The Committee also notes that those on higher incomes are more likely than other groups to have access to other non superannuation savings to provide for their retirement needs.

8.42 The Committee considers that the adoption of an approach that provides roughly the same level of concession for taxpayers with different personal marginal rates has some appeal. Nonetheless the Committee notes that superannuation funds do not have access to member salary and tax return information. This would make the implementation of superannuation contributions tax at individual rates, or individual rebates or deductions very difficult to achieve. The application of these suggestions to defined benefits, especially unfunded ones, and to end benefit taxes would also be very complex.

8.43 For these reasons, not all members of the Committee are attracted to the concept of rebates at the individual member level during the accumulation phase.

Age-based deductible contribution limits

8.44 Access to tax concessions available from superannuation is restricted through the operation of annual age-based maximum deductible contribution (MDC) limits. Under these arrangements an employer is not entitled to tax deductions in respect of employer contributions made to an individual that exceed the annual limits. In the 2002-03 year the limits are $12,651 for a member under age 35; $35,138 for a member between ages 35 and 49; and $87,141 for a member over age 50.

8.45 During the inquiry many submitters questioned the equity implications of the limitations on tax deductible contributions each year, given that there are whole of life arrangements in place through the operation of the RBLs.

8.46 ASFA did not support the MDC limits, as indicated by their Chief Executive Officer, Ms Smith, during the hearing on 8 August 2002:

> I have always thought the age-based contributions are rather odd, because people have different opportunities during their work life to save, and we are assuming a constant pattern. A lifetime RBL seems to better capture it. It is dangerous to freeze things in time, because again you have the relative living standards.[41]

8.47 The CPA also argued for reform of the MDC limits in conjunction with a review of the RBLs. In this regard, the CPA submitted that the age-based deduction limits could either be:

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41 *Committee Hansard*, 8 August 2002, p. 599.

- removed as the current RBLs cap the amount of superannuation benefits that are taxed on a concessional basis; or
- increased so that individuals under the age of 35 without commitments are able to contribute more via salary sacrifice and other arrangements while they do not have any commitments such as young children and mortgages. This would recognise the changing demographics of the population.[42]

8.48 As an alternative to removing or increasing the MDC, the CPA suggested providing age-based contribution levels for each employee on a cumulative basis.[43]

8.49 The Small Independent Superannuation Funds Association (SISFA) put forward two options for MDC limits. The first option was to retain them with some modification 'which would allow for a person to make 'catch-up' contributions above their applicable age-based limit if it appears that they will be under-funded for superannuation purposes, or they have claimed less than the maximum limit in previous years (similar to the cumulative effect of the post age-55 threshold for lump sums).' In SISFA's view, this situation may apply to women who have spent many years out of the work force, or individuals whose businesses have only become profitable later in life.[44]

8.50 The second option proposed by SISFA was to remove the age-based limits, with modifications then made to the RBL system. Mr Lorimer from SISFA explained the reasons for this proposal during the public hearing on 10 July 2002:

> We also believe that the reasonable benefit limit system needs to be comprehensively reviewed in conjunction with how it fits in, or does not fit in, with the workings of the age-based deduction limits for superannuation contributions. We cannot really see why you need to have limits on the deductions for super contributions as well as reasonable benefit limits.[45]

8.51 The ABA argued for the abolition of the MDC limits, submitting that 'there is no logic for applying limits to (deductible) contributions as well (as RBLs) – for example, it penalises those who have broken participation in paid employment and seek to 'catch up.'

8.52 In addition the ABA supported the removal of RBLs, in the context of a major overhaul of the taxation arrangements for superannuation, focussing on taxation at the benefit stage.[46]

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42 *Submission* 43, CPA, p. 7.

43 *Submission* 43, CPA, p. 7.

44 *Submission* 47, SISFA, p. 5.

45 *Committee Hansard*, 10 July 2002, p 268.

46 *Submission* 51, ABA, p. 24.

8.53 Rather than abolishing the MDC limits, the FPA argued for the removal of RBLs, to encourage additional superannuation savings. The FPA advised the Committee that:

> Reasonable Benefit Limits, RBLs, need to be removed as they inhibit greater savings by discouraging people from contributing more to super, because of fear of exceeding the RBL. Current Age-Based Contributions are a sufficient equity mechanism to limit possible excesses under concessional superannuation tax laws.[47]

8.54 Mr Hopley from the Australian Institute of Company Directors advocated the abolition of the age-based limits, but retention of the RBLs, in his evidence to the Committee on 9 July 2002:

> We believe there is no need for two controls on the maximum benefits available within superannuation. In other words, why do we have a maximum control on contributions and a maximum control on benefits received? We would recommend a removal of the maximum deductibility levels on the contributions of all ages, but controlling that at the other end by the RBL system-in other words, there are penalties at the other end.[48]

8.55 IFSA argued in its written submission that the current age-based contribution limits constrain flexibility in the current superannuation system and should be removed:

> … The most obvious limit to flexibility are the annual contribution limits, which seem unnecessary given the lifetime limits effected by the RBL regime. IFSA supports the concept of a lifetime limit on concessional treatment of retirement savings, and while there are technical issues with the RBL system, a lifetime limit on concessional treatment is an appropriate concept to the current superannuation regulation regime.
>
> Older workers seeking to make up for periods out of the labour market, but who are not yet over 50, may wish to put more of their salary into superannuation than the current limit. The rigid annual deduction limits on employers operate to restrict this opportunity.[49]

8.56 The AMP also expressed concern about the impact of age-based limits, in particular their effect on certain groups such as the baby boomers who need to make additional contributions over the next 20 years. In the view of the AMP, the MDCs limit the possible gains to individuals from using salary sacrifice arrangements to boost their superannuation savings. AMP recommended that:

> The MDC for those under 50 should be set at a much higher rate. This would enable younger people to make a significant contribution to their

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47 *Submission* 44, FPA, p. 2.

48 *Committee Hansard*, 9 July 2002, p. 185.

49 *Submission* 70, IFSA, p.13

> super and take advantage of long-term compound interest. It also enables women who expect to take leave from the workforce to make a significant contribution to their super while working.[50]

8.57 As previously noted, the ICAA advised the Committee that the age-based deductible limits discriminate against people whose occupations have income weighted toward early years in the work force, such as sports people and entertainers; and women planning a broken work pattern to have a family.

8.58 The ICAA elaborated that:

> In both these cases the individual has a higher disposable income early in their working life and may not have an opportunity to contribute to superannuation later in life.[51]

8.59 Similarly, Dr David Knox, from PwC, in response to a question from the Committee, advised that age-based limits impact on people with disposable savings who want to sacrifice a high proportion of salary at a young age. Dr Knox elaborated as follows:

> We need to be careful. At the moment, we seem to have restrictions at the front-end and the back-end. If we are looking at superannuation as a lifelong saving over your working career and we have caps at the back end, should we have caps at the front-end? If they put too much in and earn investment income, they will be caught at the back-end.[52]

Committee view – age-based deductible contribution limits

8.60 The Committee notes that most of the evidence on this issue suggested that having two limitations on superannuation tax concessions – MDCs and RBLs – were unnecessary, because the limitations were best considered on a whole of life basis either through the RBL approach or progressive tax on benefits. The Committee also notes that most parties suggested that the MDCs should be removed.

8.61 The Committee believes that equity is best considered on a whole of life basis and not on an annual basis. There are many reasons why a person might want to make superannuation contributions in any year that exceed the annual MDC limit; for example, to make catch up contributions following breaks in employment, or where people have excess earnings after child rearing and paying off the mortgage, and have the capacity to pay more at the end than at the beginning of their working lives.

8.62 The Committee is not persuaded to remove MDCs at this time. However, given preservation, and the limitations on early withdrawal, there is not the same case for MDCs as there has been in the past. For this reason the Committee considers that there

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50 *Submission* 64, AMP, p. 16.

51 *Submission* 31, ICAA, p. 3.

52 *Committee Hansard*, 17 July 2002, p. 346.

would be merit in the Government reviewing the scale of the MDCs to ensure their continued relevance.

8.63 The Committee notes that, if the MDCs were ultimately to be removed, any additional contributions would have the advantage of adding to long-term national savings as money is preserved in the superannuation system until at least age 55. Additional contributions would also have the potential to reduce future age pension payments. Women who have broken working patterns would also be able to make catch-up contributions without tax penalty.

8.64 The Committee is not attracted to the concept of cumulative MDCs because of the additional complexity that would result.

8.65 The Committee considers that two limitations on tax concessions are not necessary because the limitations are best considered on a whole of life basis either through the RBL approach or progressive tax on benefits. For this reason the Committee considers that the MDC limits might ultimately be able to be removed when the taxation regime has moved to back-end taxes.

Recommendation

8.66 **The Committee recommends that, until such time as the taxation regime has moved to back-end taxes, which would ultimately enable Maximum Deductible Contribution limits (MDCs) to be removed, the Government review the scale of the annual MDC limits.**

8.67 While not specifically referring to age-based contribution limits, the Committee considers that contribution limits are required in order to ensure that the superannuation system is not being abused by high income earners.

Chapter 9

The Surcharge

Introduction

9.1 Of the annual taxation measures discussed during the inquiry, the surcharge attracted considerable comment, with many submissions criticising the surcharge on one or more of equity, complexity or administrative grounds.

9.2 Following a brief background section, the following issues are then discussed:

- equity considerations;
- application to defined benefit funds; and
- administration issues.

Background information

9.3 The surcharge was announced by the Treasurer in his 1996-97 Budget speech on 20 August 1996. The objective was to reduce the superannuation tax concessions available to high income earners as an equity measure.

9.4 From 20 August 1996 the surcharge has been imposed on relevant superannuation contributions where the members' income is above a minimum threshold. For the 2002-03 financial year that threshold is $90,527. At that point the surcharge is one per cent of contributions and it peaks at the maximum rate of 15 per cent at incomes of $109,924.

9.5 Each superannuation fund is required to provide the Australian Taxation Office (ATO) with details of all contributions received for all members. The ATO then matches that information with each members' annual tax return to determine the amount, if any, of any surcharge that is due. Where the surcharge is payable, the ATO advises the member and the fund. The fund then passes the surcharge payment to the ATO from the member's account.

9.6 During the 2001 election campaign, the Coalition announced its intention to reduce the surcharge from a maximum of 15 per cent to 10.5 per cent over a three year period. Legislation was subsequently introduced which would have seen the first reduction commence from 1 July 2002. [1] At the time of this report, the legislation has not been passed by the Senate.

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1 Taxation Laws Amendment (Superannuation) Bill (No 2) 2002; and Superannuation Legislation Amendment Bill 2002. On 20 June 2002, the Government advised the Committee that it had decided to re-locate the proposed amendments reducing the surcharge into a package of bills implementing the co-contribution concept for low income earners. The package of bills

9.7 The 2002-03 Budget papers indicate that the surcharge is estimated to raise $820 million in revenue in the year.

Equity considerations

9.8 Even though the surcharge was introduced as a measure to improve the equity of the superannuation system, a number of submissions were critical of the surcharge on equity grounds. These included the Corporate Super Association,[2] the Australian Medical Association,[3] the Australian Licensed Aircraft Engineers Association,[4] the Taxation Institute of Australia,[5] and CPA Australia (CPA). For example the CPA submitted that in addition to it being an inefficient tax that has significant compliance costs, the surcharge disadvantages those Australians in a catch-up phase and those taking a redundancy payout:

> The surcharge imposes very significant compliance costs on funds and their advisers and has been consistently regarded by all parties in the superannuation industry as a highly inefficient tax. As well, the surcharge disadvantages those Australians in a 'catch-up' phase and those taking a redundancy payout. At the very least, consideration should be given to raising the income level at which the surcharge cuts in and removing the surcharge where a redundancy payout is rolled into superannuation.[6]

9.9 Women in Super criticised the surcharge in its application to women returning to the workforce after raising children in the following terms:

> If, down the track, a woman finds she is earning a high wage, and can save more for retirement via salary sacrificing part of her income into superannuation, the superannuation contributions surcharge results in a loss of 30% of pre-tax contributions made.
>
> Retirement and Income Modelling (RIM) Unit of the Department of the Treasury found that 'most financial planners (eg AMP, 1999) and the RIM Unit find that superannuation remains a tax preferred investment, even when the full surcharge rate is being paid'.
>
> What it ignores is that this surcharge is an insidious erosion of retirement savings, especially in respect of women with only a few years to retirement,

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were the Superannuation (Government Co-contribution for Low Income Earners) Bill 2002 and the Superannuation Legislation Amendment Bill 2002. Debate on the package of bills was adjourned in the Senate on 18 November 2002.

2 *Submission* 41, Corporate Super Association, p. 5.

3 *Submission* 32, Australian Medical Association, pp. 2,3.

4 *Submission* 149, Australian Licensed Aircraft Engineers Association, p. 2.

5 *Submission* 54, Taxation Institute of Australia, p. 2.

6 *Submission* 43, CPA, p. 6.

> because it takes no account of the inadequacy of accumulated superannuation savings or fluctuating income.[7]

9.10 Commodore Adams from the Australian Council of Public Sector Retiree Organisations (ACPSRO) also commented on the inequitable impact of the surcharge on military personnel during the hearing on 1 July 2002:

> We believe that it is iniquitous that Australians who volunteer to go in harm's way as members of Australia's armed services should be assessed at a higher rate than those in civilian occupations, simply because military superannuation schemes are deemed to be more beneficial. We believe that this is reverse discrimination of the worst sort.[8]

9.11 Mercer Human Resources outlined the following scenario in which an extra dollar could result in liability for the surcharge:

- Consider the case of Eileen who is retrenched from her job after 11 years. Eileen earned $100,000 a year and receives a redundancy payment of $103,507 – which is more than the tax free amount on 20 February 2002.
- Eileen would be liable for a surcharge payment of $8,512.
- However, if her termination payment is just one dollar less, Eileen would not be liable for a surcharge payment.
- Essentially this result is the product of changes made in the 2001 budget. Those changes require that the whole of any termination payment above the surcharge threshold is included in the adjusted taxable income (ATI). Conversely where the termination payment is less than the surcharge threshold only the total payment divided by the relevant years of service is included in the ATI.[9]

Application to defined benefit funds

9.12 The application of the surcharge to members of defined benefit funds can produce outcomes that are not consistent with the objectives of equity. For example, the surcharge can be considerably more than 15 per cent of the employer financed benefit. This is best illustrated in the following material prepared by Dr David Knox for the Society of Superannuants (SOS):

- The member's defined retirement benefit is generally determined by the product of the relevant multiple, the length of service and the member's final (average) salary. Most defined benefit funds have also set up a negative account to offset the surcharge which must be paid during the member's actual membership

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7 *Submission* 109, Women in Super, Appendix B, p. 5

8 *Committee Hansard* , 1 July 2002, p. 62.

9 Mercer Human Resources, Case Study One: Do not pay me that extra dollar, tabled at a public hearing on 2 September 2002, during the Committee's inquiry into three bills relating to the co-contribution, surcharge and choice.

period. The simplest and most common approach has been to set up a negative accumulation account increased by the fund's investment earning rate and reduce the gross defined benefit by this accumulation amount at retirement.

- However, as the defined benefit and surcharge account increase at different rates, due to the different factors that are used to calculate the amount in each case, it is feasible that the 'net' employer-financed retirement benefit will be less than 85 per cent of the 'gross' employer-financed retirement benefit. In effect, a hybrid super scheme has been established where part of the benefit is determined by years of service and the defined benefit scale and part is determined by contributions and the fund earning rate. It is this hybrid nature of the arrangement that causes the problem.[10]

9.13 The SOS also submitted the following basic issues about the surcharge for members of defined benefit fund:

- The surcharge is based on an individual member's entitlement from superannuation in respect of the employer's contribution in a particular year.
- The level of the employer's contribution is easily defined for an accumulation fund but is problematical for defined benefit funds. This problem was always acknowledged and the Government set up an Actuarial Advisory Committee at the time the surcharge was introduced to consider the issue. It is not a new problem.
- As with all actuarial calculations for contribution rates to defined benefit funds, certain assumptions are required. To resolve this issue, regulations have been issued by the ATO prescribing a discount rate of 8 per cent per annum and a salary growth rate of 4.5 per cent per annum. That is, a gap of 3.5 per cent between these two rates is used. No promotional salary scale is assumed.
- In broad terms, the major long-term issue in these assumptions is the 'gap' between the long-term investment earning and the long-term salary increase rate. It is noted that the notional surchargeable contributions factor (NSCF) assumptions use a gap of 3.5 per cent whereas it is not uncommon for actuaries to use a gap for funding purposes, after allowing for salary promotion, of 2 per cent or less over the long-term. Hence the 3.5 per cent gap could initially be considered reasonable from the member's perspective.
- It is recognised that in most circumstances, if the actual 'gap' experienced by the fund is **greater** than the assumed gap, the level of contributions has been too high and the fund moves into surplus. Similarly, in respect of the NSCF, if the gap experienced is greater than 3.5 per cent, the negative accumulation account is likely to be greater than 15 per cent of the employer-financed defined benefit that it relates to.
- Hence, it is feasible that if a superannuation fund's investments earn a rate that is say 5 per cent above the long-term salary experience, then the negative

10 *Submission* 49, SOS, Annex B, p. 1.

> accumulation account at retirement could be 20-30 per cent or higher of the employer-financed defined retirement benefit. The actual result will also depend on the individual member's salary movements.[11]

9.14 The SOS provided some examples of how the surcharge could be more than 15 per cent of the employer financed benefit using the situation of QANTAS Pilots in the QANTAS Super Plan. For example, the SOS provided information that showed that for a member receiving annual real salary growth of 1.8 per cent from age 30 to 40 and 0.5 per cent after that until age 60, the member will pay a surcharge of 46.1 per cent of the employer-financed benefit.[12]

Administration issues

9.15 A number of submissions commented on the complexity and the cost of administering the surcharge, because of the way that superannuation funds need to report every contribution for every member to the ATO, irrespective of their income levels. Much of the evidence on this issue recommended streamlining the process by relocating the administration of the surcharge from the funds themselves to the ATO. For example the Australian Institute of Superannuation Trustees (AIST) submitted that:

> AIST would also like to take this opportunity to recommend that the administration of the superannuation surcharge move entirely across to the ATO. The administration of the superannuation surcharge is widely recognized as burdensome and it imposes compliance costs on superannuation funds that are higher than the total cost of revenue gained from the surcharge. AIST accepts that the surcharge is designed to promote equity but would note that the equity gained is eroded by the costs of compliance, which is placed on all superannuation fund members.[13]

9.16 CPA Australia and Supermaster Investments also supported moving the administration of the surcharge from funds to the ATO.[14]

9.17 The Australian Consumers' Association (ACA) also commented on the costs associated with the administration of the surcharge:

> Superannuation funds have reported significant administrative costs associated with the imposition of the surcharge, and it is unpopular with higher-income earners.[15]

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11 *Submission* 49, SOS, Annex B, pp. 1-2.

12 *Submission* 49, SOS, Annex B, p. 2. Assumes a 9 per cent annual fund return.

13 *Submission* 10, AIST, p.10

14 *Submission* 121, CPA, p.1 and *Submission* 92, Supermaster Investments, p. 1.

15 *Submission* 76, ACA, p. 7.

9.18 The Committee requested the ATO to comment on the proposal to move the surcharge administration from funds to the ATO. The Committee was informed by the ATO that the question raised policy issues and was therefore a matter for Treasury. In its supplementary written submission, Treasury advised the Committee

> The transfer of administration of the surcharge would require a change in current government policy. As such we are not in a position to comment on this matter.[16]

Committee view - surcharge

Surcharge

9.19 The Committee notes that, although designed as an equity measure, much of the evidence received on the issue of the surcharge was critical of the tax as an equity measure because it disadvantages some Australians particularly those seeking to catch up following broken working patterns, and those receiving redundancy payments. However, the Committee is fully aware that a vast majority of Australians, particularly women with broken work patterns, are unlikely to ever receive the level of remuneration sufficient to pay the surcharge and are consequently not directly affected.

9.20 The Committee also notes the evidence which demonstrates that that the application of the surcharge can have unintended consequences for members of defined benefit funds where the salary experience of the member or the earnings history of the fund vary from the assumptions on which the measure is based.

9.21 The Committee also notes that some consider that the administration of the surcharge would be streamlined if it were to be transferred from the funds to the ATO.

9.22 The Committee considers that the surcharge is a complex and inefficient tax, which is administratively costly, with the cost borne by all members. The surcharge is meant to provide an annual limit on the access to individual superannuation tax concessions. However, the Committee notes that the surcharge can apply to individuals in some years when they are attempting to make catch-up contributions because of the proximity of retirement or because of broken working patterns, or because of fluctuating incomes. Often these people will be well within their relevant RBL and consequently have not reached the extent of the tax concessions available on a whole of life basis.

9.23 The Committee has a strong preference for measuring access to superannuation tax concessions only at the time of access to benefits, and not on an annual or other short-term basis. Accordingly, the majority of the Committee supports the gradual phasing out in the long term of both the surcharge and the contributions tax as part of an overall policy to move towards a more equitable system of end-benefit taxation,

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16 *Submission* 142, Treasury, p.10.

with a reduction in the contributions tax a priority as it applies to all, rather than a small minority of superannuation fund members.

Impact on defined benefit schemes

9.24 The Committee has received very detailed evidence about how the surcharge produces very anomalous and inequitable results for members of defined benefit funds and for people receiving retrenchment payments.

9.25 The Committee considers that the equitable application of a surcharge to annual employer contributions is not possible in defined benefit funds. This is because there is no relationship between employer contributions and the level of benefit available to any specific individual member. The Committee understands that the employer contributions in any given year for specific fund members cannot be determined with any precision before the member claims a benefit. This is because the member benefit is usually very different depending on salary experience and whether the member qualifies for a retirement, retrenchment, or invalidity benefit. In the view of the Committee, the result is that the surcharge can and does represent more than 15 per cent of the benefit in some private sector defined benefit funds.

9.26 The Committee is aware that there is a 15 per cent cap on unfunded public sector defined benefit schemes. However, the Committee is persuaded that the same cap is now necessary in private sector defined benefit schemes, in order to ensure that members are not taxed at a rate that exceeds the maximum for the surcharge.

Administration of the surcharge

9.27 The Committee is very concerned about the impact of the administration of the surcharge on all members of superannuation funds, even where those members are not liable to pay the surcharge themselves because they do not reach the lower income threshold from which the surcharge commences. The Committee considers that the costs of surcharge administration could be reduced if the ATO assumed responsibility for its administration, because the ATO is better placed to review income tax information for the surcharge target group.

Recommendation

9.28 **The majority of the Committee recommends that, as part of a policy to move towards a more equitable system of end-benefit taxation, the surcharge be gradually removed in the long term (given the revenue implications this may be achieved through a staged reduction).**

Recommendation

9.29 **The Committee recommends:**

- **a surcharge cap of the maximum rate of surcharge (currently 15 per cent) be implemented for members of private sector defined benefit funds; and**

- **the burden of administering the surcharge be transferred from superannuation funds to the Australian Taxation Office.**