



29 July 2002

Ms Sue Morton  
Secretary  
Senate Select Committee on Superannuation  
Parliament House  
CANBERRA ACT 2600

By facsimile: (02) 6277 3130

Dear Secretary

**Re: Supplementary Submission to the "Inquiry into Superannuation and the Standards of Living in Retirement".**

In giving evidence to the above inquiry on 19 July 2002 in Melbourne, Senator Hogg asked the National Institute of Accountants (NIA) to consider the adequacy of the \$450 monthly salary threshold for superannuation guarantee. The NIA representatives took the question on notice and undertook to provide the Committee its view on the issue.

In light of this undertaking, the NIA encloses the attached supplementary submission for the Committee's consideration.

If you have any further queries please do not hesitate to contact me on (03) 8665 3114 or by fax on (03) 8665 3130 or by e-mail on [gavano@nia.org.au](mailto:gavano@nia.org.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gavan Ord', is written over a series of horizontal lines.

Gavan Ord  
TECHNICAL POLICY MANAGER

Encl. X 1

**NATIONAL OFFICE**

Level 3  
12-20 Flinders Lane  
Melbourne VIC 3000  
Australia

PO Box 18204  
Collins Street East  
Melbourne VIC 8003  
Australia

Telephone:  
61 3 8665 3100  
Facsimile:  
61 3 8665 3130

Email:  
[natoffice@nia.org.au](mailto:natoffice@nia.org.au)

[www.nia.org.au](http://www.nia.org.au)

ABN 81 004 130 643

**Senate Select Committee on Superannuation****Inquiry into Superannuation and the Standards of Living in Retirement****Supplementary Submission****\$450 Monthly Salary Threshold for Superannuation Guarantee**

In giving evidence to the above inquiry, the National Institute of Accountants (NIA), a professional accounting body representing over 12,000 members, many of whom are intimately involved in the administration of superannuation funds, particularly self-managed superannuation funds (SMSF), the Committee asked the NIA to consider the current \$450 a month salary threshold for entry into the Superannuation Guarantee system.

The NIA have done some research into the current rule at sub-section 27(2) of the *Superannuation Guarantee Assessment Act (1992)* and therefore have made this supplementary submission to assist the Committee. Currently the rule makes it compulsory for employers to contribute at nine percent to a superannuation fund at nine percent for all of the salary, if the salary of an employee is \$450 or more in a month.

This current rule creates a number of problems including:

- For employees at or just over the threshold they are usually part time staff who move from employer to employer, thus they accumulate numerous superannuation funds of small amounts (less than \$1000) providing nothing to such people in their retirement.
- The numerous small accounts do cost superannuation funds money, but the law prevents the funds from recuperating the costs of administering such funds (particularly in years of poor returns) from the holders of such small accounts. How do the fund administrators therefore cover the costs of small funds? The obvious answer is they must charge members with \$1000 or more a higher fee.
- Employers have to bear the costs of contributing small amounts into superannuation funds, and especially if the employer is a small business employer, they may have to pay for the establishment of a superannuation policy because the salary for one employee is over the threshold. This is a disincentive to employment growth as the nine percent contribution is seen as a levy by business on employment. Conversely, the \$450 threshold encourages excessive reliance on part time staff in some businesses as they try to avoid their staff going over the threshold.
- The \$450 a month threshold also creates complexities (as with any threshold) because it can generate anomalies. For example, an employee who may only work one day a week for a twelve month period (assuming under the \$450 threshold) however such employee may be asked to work an extra day in one particular month. This invariably puts the employee over the threshold for that particular month (even though by a small amount) and therefore for one month in 12, the employer has to contribute to a superannuation fund. This of course

encourages non-traceable transaction between the employer and employee (eg cash payments to avoid the Superannuation Guarantee Charge).

- Another example is where an employee exceeds the threshold merely because there are five weeks in a month. There exists no possibility to average the salary, say over a quarter or a year. Thus, there is no flexibility for fluctuation around the threshold from month to month. This lack of flexibility can cause increases in compliance costs which leads to increases in non-complying activity.
- The other problem is that the reason the \$450 a month threshold was introduced is unclear, except that it equated to the tax free threshold at that time. The current tax free threshold (on a monthly basis) is now \$500. There has been no indexation of the threshold since its introduction in 1992.

The NIA recommends that the Committee consider the following courses of action:

- Create simplicity by recommending removing s27(2), that is removing the \$450 a month threshold. This may create simplicity by removing the arbitrary threshold, however, many of the problems identified with the current arrangements (for example, multiple small funds, compliance costs for business and funds and a disincentive to employment) would only be exacerbated.
- Increase the threshold to \$500 a month to align the threshold with the new tax free threshold. This increase would remove some of the anomalies that brings people in and out of the system, however it is still an arbitrary figure with no flexibility.
- Move from a per month calculation to a monthly average over a quarter or a year. That is, if using the current threshold, the average for each of the three months over a quarter is \$450. This in effect means that the threshold would be \$1350 for a quarter. This would remove some of the anomalies of the current system by creating some flexibility around the threshold. It would also decrease the costs to business, reduce the impact of the disincentive to employ and remove some of the people who inadvertently fall into the superannuation system with small superannuation accounts, thus reducing compliance costs to funds, which should benefit other members. This would provide a practical solution while not diminishing the importance of superannuation.
- Introducing a monthly average over a quarter rather than a year is also beneficial as it links with the new regime of quarterly instalment for the Superannuation guarantee charge.
- Alternatively the threshold for the monthly average over a quarter could be \$500 for the reasons stated above (effectively \$1500). It may also be beneficial to index the threshold, whether it be the existing system or the proposed system. The existing threshold has been in place for at least ten years without movement.
- Arguments against introducing a monthly average threshold over a quarter include that it will reduce the number of Australian's saving for retirement. However, how is it possible for people on such small salaries to actually accrue enough superannuation to have a fund at retirement of any consequence? For such people, the immediacy of a salary from employment is far more important than having a superannuation fund, therefore a reduction in one of the barriers to employment would be of greater assistance to such people more. The other argument is about people entering employment during a quarter. Many would not qualify for Superannuation Guarantee Charge because their monthly average for

that quarter is less than \$450. This problem can be overcome in such circumstance by applying the monthly average for people beginning employment within that quarter from the day they began their employment, not from the beginning of the quarter.

The NIA hope that this submission will assist this Committee with its deliberations on the \$450 a month threshold.

Gavan Ord  
TECHNICAL POLICY MANAGER  
NATIONAL INSTITUTE OF ACCOUNTANTS