

Ms S Morton
Secretary
Senate Select Committee on Superannuation,
Parliament House
Canberra
ACT 2600

Dear Ms Morton

Re: My submission to the Senate “Inquiry into Superannuation and standards of living in retirement”.

Executive Summary:

Recommendation 1:

Abolish the Superannuation Surcharge Tax legislation (surtax) and replace it with a small increase in tax rates or a Medicare or Gun Control styled levy, such that it is revenue neutral, administratively cheaper and applying at say, \$120,000 income pa.

Recommendation 2:

If the ATO have not, through Submission No’s 14, 15 or 19, (which are confidential and therefore unknown to the author), recommended the abovementioned course of action, then, before you write your report, summon Michael Carmody and ask him if this simple idea is better than the current system employed by the ATO.

Conclusion:

The Australian community has for years accepted the Medicare levy. They have previously accepted the Port Arthur gun levy. There was also community acceptance for a levy to pay for our Army in Timor.

The introduction of levies is not new.

Will it happen?

No, its too simple.

Introduction:

Let's have a little honesty from our politicians. The surtax was introduced to raise revenue for the Government.

It is understood that Treasury devised the scheme and were more than happy for it to be administered by the ATO.

The ATO, once understanding what was intended with the legislation, suggested an alternative based around my recommendation above.

History shows the ATO lost that battle and is now responsible for the costly administration of the surtax.

Surtax:

So why is the surtax so hated?

Contrary to popular belief it is not a tax that applies solely to 'income' for the wealthy.

The ATO have defined "wealthy" to mean a 'income' (aka adjusted taxable income) of \$85242 for the financial year 2001/02.

The surtax can apply to others earning considerably less than \$85242. One's 'income' is adjusted (read increased) for a number of factors not related to take home pay or income.

It's purely designed to be ramped up so the resultant tax grab is high.

Once your 'income' is adjusted up, it needs to be further adjusted up to include your Employer contributions to super.

For members of Defined Benefits funds, that's where the fun begins.

For example if one belongs to a funded defined benefits scheme, then the Employer 'notional' contribution to your scheme is used to increase your 'adjusted taxable income'. For a variety of reasons the Employer most likely does not pay anything like the 'notional contribution amount' to the scheme, but the fund actuary, because of the surtax law, will deem otherwise.

In addition, the fund actuary in arriving at what the notional Employer contribution is will also use in his calculations the *value of the benefits deemed* to have accrued to you.

Worse still, having enacted a complex law and costly law to administer, the fund actuary must allow in his calculations the administration costs for complying to the surtax legislation, ie you are paying surtax on the admin cost of your super fund complying to the surtax.

So the surtax impost has moved *from* what the Employer **actually** put in for an accumulation fund to a **fictional** or notional amount of plus a bit more for risk and administration costs.

Yes, lets get that 'adjustable taxable income' figure as high as possible then calculate the surtax owed.

Of course when you retire this artificially inflated 'income' is NOT be used for paying benefits. In that case one must use a much, much lower 'income' figure.

It gets worse.

Your fund may have set up an 'surtax offset account' for you to make contributions so that when you retire the debt owing on surtax is reduced (to hopefully zero).

Unfortunately if those contributions are made via salary sacrifice arrangements, then the amount you set aside (in the surtax offset account) to negate the surtax in the first place, is deemed to be part of your 'income' for that year.

Astute readers will realise this has the effect of you paying even more surtax had you not put aside money in the 'surtax offset account' in the first place.

A classic catch 22.

There are many more inequities with the surtax legislation particularly for funded defined benefits funds and I direct you attention to Submission No. 49 and 77 from the Society of Superannuants.

Advantages/Disadvantages of my recommendations.

It's simple to administer.

It targets the true rich, the more they earn the more they pay.

It works for Medicare. It worked when gun levy was introduced.

Its REVENUE NEUTRAL.

In fact if Treasury do the sums, they will find that because of bracket creep, within 2.8 years, income from this simple idea, will be much more that surtax could ever hope to deliver.

Views of Experts in the Field of Superannuation:

So ordinary Australians, see Submission No's 3, 5, 18, 20, 21, 22, 36, 61 and 94 have all called for either the abolition or repealing of the surtax, but why should the Senate Select Committee believe them?

Well the answer is in the form of a rhetorical question:

What have the following strange bedfellows in common:

- the Association of Independent Retirees – Submission No. (16),
- Superannuated Commonwealth Officers Assoc.(24),
- Industry Funds Forum (28),
- AMA (32),
- Supermaster (40),
- Corporate Super Assoc. (41),
- CPA Australia (43),
- Financial Planning assoc of Aust. (44),
- Small Independent Superannuation Funds Assoc.(47),
- Society of Superannuants (49),
- Australian Bankers Assoc. (51),
- Taxation Institute of Australia (54),
- National Institute of Accountants (59),
- National Seniors Assoc. (60),
- Australian Council of Public Sector Retiree Org. (66),
- The Assoc of Superannuation Funds Aust. (73) and
- The Institute of Company Directors (81).

The answer of course is they too, have all called for abolition or amendment the surtax legislation to make it fairer.

Over to you Senators.

Yours truly,

Daryl Peace

6th August 2002

4 Bridget Crt
Sale Vic 3850
03 51 432572

e-mail: Daryl_Peace@loyyangpower.com.au