

- Taxation Laws Amendment (Superannuation) Bill (No 2) 2002 as Authorised for publication
- Superannuation Guarantee Charge Amendment Bill 2002 Appendix 2 - tabled with report

Additional Information

AIST media releases:

- 'More super for all employees from 1 July', 9 April 2002;
- 'Milestones or landmines – superannuation budget changes', 13 May 2002;
- 'Trustees comment on super surcharge change', 17 May 2002; and
- Trustee Alert, 'Trustees and the Budget Measures', dated May 2002.

Correspondence from the Minister for Revenue and Assistant Treasurer, Senator the Hon Helen Coonan, dated 20 June 2002, regarding 'Superannuation Surcharge and Government Superannuation Co-contribution'.

Correspondence from the Taxation Institute of Australia dated 17 June 2002.

Correspondence from IFSA dated 24 June 2002.

Correspondence from ASFA dated 25 June 2002.

Morton, Sue (SEN)

From: Joanne Johnson [info@aist.asn.au]
Sent: Tuesday, 18 June 2002 9:17 AM
To: sue.morton@aph.gov.au
Subject: AIST RESPONSE TO SUPERANNUATION BILLS - PUBLIC

Importance: High

Good morning Sue

As per our recent telephone discussion and your request for AIST's views.

Susan Ryan has asked me to pass on her apologies for not being available to attend the hearing and has also asked me to pass on these attachments for your information. These documents cover AIST's views on particular areas.

Please do not hesitate if you require any further assistance.

Many thanks

Joanne Johnson
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Media Release 9 April 2002

More super for all employees from 1 JULY

President of the Australian Institute of Superannuation Trustees has reminded employers and employees that super contributions are about to go up.

"From 1 July this year the amount of money employers must contribute to employees' super funds will increase from 8 to 9 percent of wages or salaries.

That's on top of what employees get in their pay packet rise.

Everyone should check after July and make sure the increase is being paid.

With this automatic increase, the Superannuation Guarantee Charge has reached the maximum required by legislation. "

Susan Ryan warned that most Australians would still need to put more money aside for their retirement.

"A figure of between 12% and 15% of earnings over a working life is generally agreed in the industry as necessary for a satisfactory retirement income".

"Lower and middle income earners should try to add some of their own money to their super, through salary sacrifice or making contributions from their after-tax salary," she added.

Whatever the method, adding more money to your super will bring good results.

The effect of tax benefits plus compound interest is that a little more now turns into a big boost on retirement.

People should do their own calculations and see what an extra few dollars a week into super over the years will turn into on retirement.

Media Enquiries

Susan Ryan, President Australian Institute of Superannuation Trustee

Mob. 0417 344 926

AIST Media Release - 13 May 2002

**MILESTONES OR LANDMINES-
SUPERANNUATION BUDGET CHANGES**

The Australian Institute of superannuation Trustees expects significant new measures to include:

- Mandating quarterly employer superannuation payments
- Phasing down of surcharge
- Government co-contribution for low paid

As well as other measures including child super accounts, contributions up to 75 years and increased deductions for self-employed super.

AIST believes some of these measures could significantly improve super but only if administrative cost and complexity do not outweigh benefits to fund members.

For comment on superannuation changes introduced with budget bills

Susan Ryan President AIST

PH (02) 9664 1920 mobile: 0417 344 296

Australian Institute of Superannuation Trustees
Media Release - 17 May 2002

TRUSTEES COMMENT ON SUPER SURCHARGE CHANGE

President of the Australian Institute of Superannuation Trustees Susan Ryan today commented on Labor's alternative approach to reducing super taxes.

"The alternative makes a lot of sense. The entire super industry wants to see a reduction of contribution taxes. Contribution taxes eat away at retirement savings before they get started. Contribution taxes are a big negative for the low paid. As the government has decided to appropriate \$370million to reducing super taxes, it would be more efficient and help more people to reduce contributions taxes.

The Coalition's proposed phased reduction of the surcharge, while it would assist the higher paid minority, does not improve the administrative complexity of the surcharge which has been so costly to superfunds and their members.

Trustees urge the Government to give careful consideration to Labor's alternative tax reduction suggestion.

There is particular merit in the proposal to reduce contributions taxes for the over 40's. These employees have not had the benefit of a full working life of super savings.

Women in particular, many of whom were excluded from super prior to the introduction of compulsory super, and who often return to the workforce later in life would benefit from this targeting".

Susan Ryan President AIST

For further comment: mobile 0417 344 926

May 2002

TRUSTEES AND BUDGET MEASURES

A number of changes to super have been introduced with the budget bills, raising administration and other issues for trustees. Trustees may have to consider whether changes to their trust deeds are needed to implement some changes. You may also need to seek further expert advice.

AIST makes the following points for your guidance.

CHOICE OF SUPERANNUATION AND PORTABILITY

The Government is reintroducing choice of fund legislation. Unless there are considerable changes to the failed 2001 bill it is unlikely that trustees or employers will be able to support this legislation. AIST will keep you updated.

The Government has allocated substantial funds, \$12.7m in the first year to the ATO for public education in relation to choice of fund.

Should the legislation proceed AIST will seek to play a part in the education program.

QUARTERLY SUPERANNUATION CONTRIBUTIONS

Trustees have long argued in favour of mandating quarterly employer contributions of SG.

As proposed the Government measure achieves this and has additional benefit of requiring employers to advise employees on their pay slips, (or suitable alternative), the amount and destination of SG contributions when they are made.

Unfortunately there is a big problem with the measure.

The Government proposes to lift the eligibility threshold for employee entitlement to SG from \$450 per month to \$1350 each quarter. If implemented this would mean many casual workers would miss out on SG altogether.

Many casual workers, especially women, eg in the retail, hospitality or rural sectors do not earn \$1350 from one employer over a three-month period. They would be worse off under the measure in its present form.

Trustee Alert



As this measure is intended to come into effect 1 July 2003, there is an opportunity for consultation with industry.

AIST is lobbying to keep the \$450 per month threshold but proceed with mandating the quarterly payments.

REDUCING THE SUPER SURCHARGE

The measure to reduce the surcharge by 1.5% each year for three years would benefit only the minority of employees who are eligible for the surcharge. It would not however reduce administrative complexity and cost for super funds, it would in fact increase it.

AIST agrees with the alternative proposition, that the \$370 million to be allocated to reduction of super taxes would be better applied to reducing contributions tax. This reduction would assist all members but particularly the lower paid. AIST is in discussion with all parties in the Senate about this measure, which is to start 1 July 2002.

BABY BONUS

The baby bonus plus any other amount of voluntary contribution can be made to super. The contribution is eligible for a tax deduction or a co-contribution.

The Baby Bonus is to be offered to the first baby born after 1 July 2001. The superannuation measure comes into effect from 1 July 2002.

Issues for trustees arising from minor changes including baby bonus and child super are whether administrative costs of offering these facilities can be justified and whether many fund members wish to use such facilities.

Trustees may wish to test member intention and explore costs before they decide to offer such facilities.

Trustee Alert

CHILD ACCOUNTS

Regarding child super, trustees should be aware of the following points:

- contributions will be undeducted for a child under 18;
- contributor does not have to be related to the child;
- the maximum contribution is \$3,000 per child for each three year period;
- contributions will not attract contributions tax;
- child accounts will not be member protected; and
- are not eligible for a co-contribution.

Trustees who offer child accounts will have an additional responsibility to ensure the child account is complying. The measure starts 1 July 2002.

SUPER CONTRIBUTIONS TO AGE 75

Personal contributions to super will be allowed to 75 years if the contributor is working at least 10 hours per week. Employers can claim rebates only if the contribution is mandated under an award. Employers are not required to pay SG over aged 70 unless under an award.

Undeducted personal contributions will have no deductions no surcharge and no salary sacrifice.

Contributions of those aged 70 - 75 will be automatically cashed if they are not working at least part time. Contributions of those over 75 will be cashed unless they are working full time.

The measure comes into effect 1 July 2002.

SUPER SPLITTING BETWEEN COUPLES

This will not come into effect until 2003. The Government will put out a discussion paper prior to finalising legislation. As with child accounts and baby bonus super trustees should look at administrative costs and complexity whether member protection is required, and compliance obligations in relation to these accounts before deciding whether their fund should offer them.

Trustee Alert

CO-CONTRIBUTIONS

The Government will give a co-contribution dollar for dollar up to \$1,000 for voluntary personal contributions by people earning between \$20,000 - \$32,000.

Payment is not indexed, it will be administered by the ATO and comes into effect 1 July 2002.

Non-working spouses will not get the co-contribution. To be eligible, working spouses will have to have an employer.

A co-contribution does not count for surcharge purposes. Co-contributions are subject to preservation rules. Members of commonwealth schemes are eligible for co-contributions. If an eligible person has more than one super fund, the ATO will only pay a co-contribution into one fund. The co-contribution will not be paid when the member is in the pension phase.

AIST supports this measure in principle but would like to see the co-contribution better targeted at the low income single parent, or low income couple.

For trustees a number of timing issues will arise, particularly for transfers this year. Funds will need a new category to identify personal contributions and any personal contributions for which a tax deduction has been claimed.

It is also envisaged that trustees may experience problems identifying the source of contributions in relation to matching personal contributions for co-contribution.

SUMMARY

More administration and implementation issues will arise for trustees from this package of budget bills.

AIST will monitor, inform and assist members, however members may need to seek further expert advice.

Susan Ryan, AO
President, AIST



MINISTER FOR REVENUE AND
ASSISTANT TREASURER
Senator the Hon Helen Coonan

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20 JUN 2002

Senator John Watson
Chairman
Senate Select Committee on Superannuation
Parliament House
CANBERRA ACT 2600


Dear Senator Watson

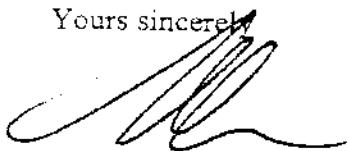
Superannuation Surcharge and Government Superannuation Co-contribution

As you know, implementation of the Government's package of superannuation initiatives, which were announced during the election and described in the document "A Better Superannuation System", will make superannuation more attractive and accessible. Two key measures are the reduction of the superannuation surcharge from 15 per cent to 10.5 per cent over a three year period and the introduction of a Government superannuation co-contribution for low income earners.

The reduction in the superannuation surcharge is currently located in the *Taxation Laws Amendment (Superannuation) (No. 2) Bill 2002* (TLAS 2) which was passed by the House of Representatives on 5 June 2002 and referred to the Senate Select Committee for consideration this afternoon. TLAS 2 also includes a range of other superannuation election commitments: superannuation for life; raising the contribution age from 70 to 75; increasing tax deductibility for the self-employed; and the quarterly Superannuation Guarantee regime.

I am writing to advise you that it has been decided to move the amendments reducing the surcharge into the Bills implementing the co-contribution, which will be introduced into the Parliament next week. The Superannuation (Government Co-Contribution for Low Income Earners) Bill 2002 and the Superannuation Legislation Amendment Bill 2002 will introduce the co-contribution measure and the reduction in the surcharge as a package. As these two measures are designed to encourage saving for retirement, packaging them together will co-locate measures that make superannuation contributions more attractive for both higher and lower income earners. The bills will highlight the fact that the Government's superannuation initiatives were designed as a balanced set of measures.

Yours sincerely



HELEN COONAN

Email: super.sen@aph.gov.au

17 June 2002

Senator the Hon John Watson
Chair
Senate Select Committee on Superannuation
Parliament House
CANBERRA ACT 2600



Dear Senator

TAXATION LAWS AMENDMENT BILL (SUPERANNUATION) NO 2 2002

We refer to the invitation from the Committee for comments on the above and present below some concerns which are felt by our members regarding changes proposed under the Bill.

The change from the monthly Super Guarantee earnings threshold of \$450 per employee to the quarterly threshold of \$1350

This will seriously disadvantage casual employees, employees with multiple jobs, young people and women or those entering and leaving employment. In particular, the change will potentially deprive many seasonal workers of superannuation support. If, for example a person works for two months and earns \$600 per month, they will no longer qualify for support from the employer. The SGC that is not paid because of this new threshold will not be returned to employees in the form of higher wages but will be retained by many employers as a cost reduction.

This appears a retrograde step when the objective is to secure superannuation coverage over as broad a base as possible. It cannot be of particular assistance or relief to any industry, as employer systems should long ago have been geared to monthly measurement of individual income – and if not, it is not at all clear that quarterly measurement will assist compliance.

To allow different classes of employees will increase discrimination by employers. If an employer is able to structure employment arrangements to ensure that the employees are not covered by the SGC then they will. The whole point of a universal compulsory superannuation system is to ensure coverage. All employees should be included in superannuation guarantee. At the 9% contribution level the SGC is a significant part of remuneration. Many employees who work multiple jobs rely on the SGC contribution to cover their life insurance requirements in their superannuation fund. The lack of contributions can place the low income earner in a situation where there is no insurance coverage.

Accordingly, it may be prudent to consider the abolition of the new threshold entirely. The existing \$450 per month threshold is sound as it provides a reasonable de minimis test.

New employer reporting requirements

The Bill proposes to introduce a new requirement for employers to report contribution amounts and destination to members on effectively a monthly basis (new s 23A SGAA, requiring such information to be provided to members of accumulation funds within 30 days of the contribution).

Taxation Institute of Australia

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It should be noted that there is also an apparent inconsistency between the Bill and the Explanatory Memorandum (the EM) in that the EM states that the destination of employer contributions must be reported (paragraph 1.39), whereas the Bill (item 116) only requires the amount and any other information required by the regulations.

We understand that even for major employers this creates some issues. It will create a significant change for many small to medium enterprises (SMEs), many of whom do not have computerised payroll systems.

At present, any employer who deducts member contributions from pay is obliged to provide details on payslips and many provide information on the amount of employer contributions, depending on award requirements and employer policy. This currently is probably not widespread practice with many SMEs. However, there is currently no universal or even widespread practice of indicating the fund to which the employer contributions are directed.

We acknowledge that the provision of such information is essential information to employees, but question the need for monthly reporting on this topic. This could prove a nightmare for employers if Choice of Fund is introduced as employees could change fund multiple times during a reporting period.

The new requirements would impose significant extra burdens on all employers particularly SMEs and is considered in our view further bureaucratic red tape which can prove very costly to administer in practice. For example, most software and systems will need to be amended. This is very expensive to implement. Further, time is needed prior to implementing such widespread change. SMEs are still recovering from all the extra paperwork and changes from GST, PAYG, privacy, etc, and other ongoing changes and would not be interested in this.

As an alternative we believe that the employees should be notified of the fund to which their quarterly contributions have been paid within 30 days of the date of the first contribution to that fund and on any subsequent change of fund. The SIS Act provides regular member and fund reporting that should be sufficient to keep the member informed. Further, the SGC Act provides a huge penalty on employers for non-compliance. That is, if an employer fails to comply with their minimum SGC obligations, the penalty system is well entrenched and severe that if this is not sufficient deterrent to the small minority of employers that are not complying, then probably nothing will be.

For example, an employer makes a contribution on the 26 September 2002. The employer would be obliged to report the amount of the superannuation contributions by the end of October. However, in respect of the notification of the fund the employee should be informed on commencement of employment of the fund to which the employer is making superannuation contributions. Accordingly, with the 30 June PAYG tax summary or on joining employment the employer should confirm the fund to which the contribution has been paid. It is not necessary that the fund details be notified each time a contribution is made. Invariably, employees will be notified of the same details repeatedly without any added value and it will prove a useless item further distracting employees from focusing on the real issues.

Removal of deductibility of contributions for the benefit of people over the age of 70

Proposed amendments to s 82AAC and 82AAT would remove deductibility for contributions made for the benefit of individuals aged over 70. These changes come hand in hand with the ability to continue to make personal non-deductible contributions up to age 75.

This is a change to which little publicity has been given. The reason for denial of deductibility is that unless a contributor aged over 70 is employed full-time, the payment standards in the SIS Regulations require the benefit to be paid out as soon as it has been contributed (see para 4.6 of the E.M.)

However, we note that in times when life expectancy is extending rapidly, it is by no means unthinkable that 70 year olds will still be active in the work force and wishing to make provision for their retirement, for which they may feel that they have as yet made inadequate provision. This is a real issue in cash

strapped farming and small businesses where the members have not provided any superannuation during their lives and wish to do so but have left it too late for making a tax deductible contribution if they have already attained 70 years. However, currently, there is some scope for employer contributions to be made where they relate to service prior to age 70.

Also, there are significant imposts on making tax deductible contributions, e.g., the contributions tax and surcharge which may collect up to 30% on receipt by the fund with probably more tax to be paid on exit; typically 16.5% within the lump sum RBL.

We consider that the removal of the deduction for this age group should not proceed without further review and consideration of the contribution and payment standards in the SIS regulations, and alignment of these standards with the deduction rules.

Any ad hoc change could prove detrimental and is inconsistent to the move of longer life spans and also the ability to contribute up to age 70 years.

If you have need to discuss any aspect of this submission or require additional information or clarification, please contact the Institute's Tax Director, Michael Dirkis, on 02 9232 3422.

Yours sincerely



Barry Low
President



Investment & Financial Services Association Ltd
ACN 080 744 163

24 June 2002

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

Dear Ms Morton

I am writing to provide an answer to a question asked by Senator Buckland during the Committee's 20 June hearings.

The Senator asked whether Investment & Financial Services Association member companies were aware of the practices of some consumer credit providers in seeking information about superannuation.

IFSA represents investment managers and life insurance companies. IFSA does not represent any institutions on consumer credit issues.

As the Committee noted during my evidence, it is not lawful to use or require superannuation as a security for borrowing. Superannuation is an asset owned by the individual, even though it is often preserved until age 55 or later. As such, it is possible that some credit providers may wish to include superannuation balances in the individual's assets and liabilities: IFSA is not aware of specific instances. As we understand it, superannuation law does not proscribe this inclusion.

I hope my comments are of assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Gilbert', written in a cursive style.

Richard Gilbert
Deputy Chief Executive Officer

Morton, Sue (SEN)

From: Robert Hodge [RHODGE@superannuation.asn.au]
Sent: Tuesday, 25 June 2002 12:22 PM
To: Sue Morton
Subject: ASFA Supplementary Submission - anticipated Senate Committee Inquiry
Importance: High

Senate Select Committee on Superannuation Inquiry into:

TAXATION LAWS AMENDMENT (SUPERANNUATION) BILL (NO. 2) 2002, and
SUPERANNUATION GUARANTEE CHARGE AMENDMENT BILL 2002

Supplementary Submission by the Association Of Superannuation Funds of Australia

In response to questions asked at the Committee hearing on Thursday 20 June 2002 ASFA advised that it would attempt to provide additional information.

The matters in question and ASFA's response are detailed below:

1) How many employers currently ignore the superannuation guarantee threshold and pay superannuation contributions based only on employee earnings?

Response

We do not have any information about the number of employers choosing to pay super, either by choice or due to the operation of an industrial award or the like, when wages are less than \$450 a month.

2) Approximately how many funds currently receive monthly remittances from employers, what is the size of those funds and how many employers are remitting monthly?

Response

The only public data available on this subject is from the ATO and it indicates that 85% of employers pay at least quarterly.

3) What is the number of people who actually claim superannuation contributions as a tax deduction?

Response

The latest publicly available data comes from the ATO Taxation Statistics for 1998-99:

In the 1998-99 taxation year around 190,000 individuals claimed deductions of just over \$1 billion for non-employer-sponsored superannuation contributions (basically claims by the self employed).

However, it should be noted that the number of the self employed making such contributions has been shrinking over the last few years. In 1995-96 over 220,000 individuals claimed this deduction, with total deductions of \$870 million. The introduction of the surcharge in 1996 led to a drop in contributors to just over 200,000 with deductions falling to \$817 million. Most of the drop in contributions was attributable to individuals in the income band in which the surcharge applied.

It would appear from the statistics that the growth of contributions by the self employed has been constrained by the availability of only partial deductibility of superannuation contributions and the introduction of the superannuation contributions surcharge.

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