

Tax White Paper Task Force
The Treasury
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Re: Submission – Re:think Tax Discussion Paper

QSuper welcomes the opportunity to participate in the Government's consultation process regarding the future shape of Australia's system of taxation. For the reasons set out in this paper, it is QSuper's view that the taxation of superannuation and retirement income streams should be considered in the light of a broader review of retirement income accumulation and expenditure. The review should encompass the three pillars of retirement income provision: the aged pension, compulsory superannuation and voluntary superannuation as all are intertwined in one way or another. It should also incorporate potential changes to the taxation of investment returns such as dividend imputation reforms.

QSuper is concerned that isolated changes to different components of the system may have compounding, and potentially unforeseen, effects on the ultimate retirement balances of many Australians. In addition, a more comprehensive review will ensure that all Government policies supporting the retirement system work in unison to enable a sustainable, equitable and simpler system into the future.

About QSuper

QSuper is Queensland's largest superannuation fund and, with around \$90 billion in accounts, one of the largest in Australia. QSuper is the default fund for Queensland's public sector employees and has around 540,000 members made up of current and former public servants and their spouses. These figures include more than 32,000 members with account based pensions and approximately \$13 billion invested to provide retirement incomes for these members.

QSuper is an APRA regulated non-public offer fund and is authorised to offer a MySuper lifecycle investment option to its members. In addition to its Commonwealth regulatory obligations, being an unfunded public sector superannuation scheme, QSuper is also governed by Queensland legislation.

QSuper has provided retirement benefits to Queensland's public sector employees for over 100 years. The Fund has a 'member for life' philosophy and is committed to continually improving its products and services for members, from their commencement in the fund and through their retirement.

Recent Government reviews

In recent times the Federal Government has conducted consultations which were aimed at or included superannuation and retirement incomes as topics. These have included:

- Review of retirement income stream regulation – Discussion Paper July 2014, including subsequent consultation with interested parties on specific regulatory proposals;
- Financial System Inquiry – Final Report December 2014, including subsequent Federal Treasury consultation with interested parties regarding the recommendations contained in the report; and

- Re:think Tax discussion paper which includes key aspects of taxation of retirement incomes and savings generally.

The first of these examined regulatory impediments to the development of innovative retirement income products which includes consideration of the current annuity and pension rules and draw down rates. The second recommended that regulatory barriers for the development of retirement income products be removed; that there should be clear objectives for the superannuation industry and; that superannuation trustees be required to offer a pre-selected comprehensive income product (CIPR) in retirement for members to receive their benefits.

The current Re:think process calls out key aspects of all three retirement pillars in Chapter 4 “Savings” and in various other parts of the consultation paper. The issues raised include:

- Tax concessions for both contributions and earnings in superannuation;
- Tax free treatment of superannuation savings in pension mode;
- Dividend imputation system and capital gains tax discounting both in and outside the superannuation system;
- Estate planning within superannuation; and
- Means tested aged pension including access to full and part pensions.

In addition to these matters there have been various reports and media commentary regarding ‘tax savings’ within the retirement income system including:

- Maximising the Government’s tax collections in superannuation by ensuring employer compliance with superannuation guarantee obligations;
- Supplementing retiree incomes through soft compulsion to use reverse mortgages to release capital from their homes;
- Including the family home in the assets test for the aged pension; and
- Allowing the use of superannuation savings for a deposit on a first home.

Having in place well-reasoned, agreed and understood objectives for the superannuation industry may well see some of these issues recede however, QSuper submits that all of these issues involve consideration of taxation in varying degrees. **Ultimately the key issue at play is the sustainability of the retirement income system in Australia.** It is for this reason that QSuper supports the ‘carving out’ of the “Savings” and superannuation aspects of the Re:think consultation in order to focus on the retirement income system as a whole and in a holistic manner.

Review principles

As stated above, sustainability of the retirement income system in Australia appears to be at the centre of all recent Government reviews. Sustainability of the system is in the best interests of all Australians. Public commentary, both in reports and the media, regarding concessions within the retirement income system, including superannuation and access to the aged pension, revolves around sustainability and equity within the system. This is a useful starting point for tax review principles.

- **Sustainability** – from a public policy perspective it is vital that policy settings within the retirement income system ensure that all Australians, now and into the future,

have access to adequate retirement incomes at sustainable levels. Taxation within superannuation saving should encourage saving so that fewer people are reliant on the full or part pension into the future. Regulatory settings should encourage product development that supports this principle including the provision of longevity risk products.

- **Equity** – from an equity perspective, the publicly funded concessions supporting the retirement system (from the aged pension as well as superannuation contributions, earnings and drawdowns) should be targeted appropriately at various income levels, consistent with the broader design of the whole tax system.
- **Simplicity** – public policy should promote simplicity in the retirement income system. Participants should be able to understand where they ‘fit in’ with respect to access to entitlements and their savings outcomes. Taxation within superannuation should be simple and well understood by participants. Simplicity drives costs out of the system. Cost of implementation and associated complexity should be factored into any policy proposal.

It is submitted that a holistic approach to a review of taxation of all kinds in the retirement income system is likely to lead to a greater consensus regarding required change and less piecemeal change by Governments depending on budgetary pressures. In addition, a holistic approach would build better understanding regarding what each aspect of policy setting is designed to achieve and therefore increase support for the policy measure.

Conclusion

The stated purposes of the Re:think consultation paper process include a focus on ideas rather than solutions, and a consideration of how revenue is raised. QSuper welcomes the opportunity to participate in the options consultation process however the initial submission for the Fund is to urge a co-ordinated review of broad retirement incomes policy.

Please contact Chief Strategy Officer, Michael Pennisi, for any further comment.

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