

29/05/2015

By email: bettertax@treasury.gov.au

Tax White Paper Taskforce
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam,

Re: AUSTRALIANSUPER SUBMISSION TO RE: THINK – TAX DISCUSSION PAPER

AustralianSuper welcomes the opportunity to respond to the RE:THINK Tax Discussion Paper issued in March this year.

About AustralianSuper

AustralianSuper is Australia's largest single superannuation fund and is run only to benefit members. We don't pay commissions to anyone to recommend us, nor do we pay dividends to shareholders. We have over 2 million members and manage over \$90 billion of members' assets. Our sole focus is to provide the best possible retirement outcomes for members.

Superannuation is only one pillar of the nation's retirement incomes policy, and superannuation taxation is one sub-element of that. Consideration of any changes to the taxation of superannuation should preferably occur after a comprehensive examination of the retirement incomes system, given the interaction between superannuation and the social security system, as opposed to using a piecemeal approach.

It is also worth acknowledging the economic climate in which such an examination would occur. The Australian economy is operating in a low interest rate environment at least for the medium term. In this environment the value of the Government Age Pension materially increases in its relative effectiveness for retirees and the value of private savings, including superannuation, usually relatively decreases.

Changes to reduce taxation concessions applying to superannuation in a low interest rate environment will further reduce the value of savings relative to the Government Age Pension, to which access is currently being radically reduced. This sobering context must be kept in mind when tinkering with the taxation concessions.

AustralianSuper supports the content of the submissions of Industry Super Australia and the Australian Institute of Superannuation Trustees.

We also seek to specifically comment on the matters outlined below.

Q 22. How appropriate are the tax arrangements for superannuation in terms of their fairness and complexity? How could they be improved?

Q 25. Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividend be improved?

AustralianSuper's submission discusses the broad policy principles that we consider to be appropriate in dealing with the taxation arrangements for superannuation. We will seek to make further submissions in this process as is appropriate.

These broad policy principles are premised upon an understanding that a successful retirement income system in Australian will meet the following objectives:

- Provide all Australians with a level of dignity in retirement.
- Provide retirement benefits to Australians.
- Augment and, as appropriate, replace the Commonwealth Government provision of the Centrelink Age Pension for many working Australians.

Any changes to the taxation of superannuation need to be approached having regard to these overall objectives of the retirement incomes system.

Question 22. How appropriate are the tax arrangements for superannuation in terms of their fairness and complexity? How could they be improved?

- **A fair superannuation system is taxed concessionaly for all users, up to the point where it is necessary for provision of retirement outcomes and no further.**

AustralianSuper agrees that the taxation system as it applies to superannuation could be improved in terms of its fairness and complexity.

There are opportunities to consider fairness across a range of superannuation recipients, from low income earners who pay higher tax on their superannuation than they pay on their wages, to the fairness of having an unlimited tax exempt environment for superannuation retirement income for all recipients.

- **Sustainability of the system: Encouragement to save for retirement needs to also be balanced against the taxpayer burden to provide concessional taxation treatment for those already able to provide for their own retirement.**

The taxpayer burden to provide concessions to the superannuation system should have some limits applied to it. There is a question about the long term taxpayer burden of having an unlimited tax exempt environment for superannuation retirement income for all recipients – the cost of this subsidy has been exacerbated by the commencement of the retirement of baby boomers.

A sustainable system is one where superannuation fund members can have some certainty about superannuation rules so they can plan for their retirement with confidence.

- **A fair superannuation system is one where taxation concessions provided by all taxpayers are not used to advance estate planning by some.**

Consistent with the objectives of the retirement incomes system, concessions to the superannuation system should reasonably be limited so they apply to provide retirement benefits only.

In particular, it is desirable for there to be a link between limits on tax exempt retirement income with tax free thresholds outside of superannuation.

- **Some level of taxation concessions will always be required in superannuation because investors are being asked to give up access to their own savings for up to a 40 year period.**

Any reforms to taxation in superannuation that seek to ensure that superannuation is taxed the same way as investments made outside of superannuation will destroy one of the key motivating factors for investing in superannuation. Investors need to have some incentive to invest savings in a vehicle that preserves their money for up to a 40 year period.

Investors need some level of taxation trade-off against having their investment money preserved until retirement. If the incentive of concessional taxation is taken away it will materially adversely affect the account balances of existing superannuation fund members. It will also serve to reduce future discretionary investment in superannuation, risking failure to meet the objectives of the retirement income system.

- **Any consumer who invests in superannuation should not have to pay more tax on their mandatory superannuation contributions than the tax they pay on their income.**

It is unfair for low income earners to have their compulsory superannuation contributions taxed at a rate higher than the rate they pay tax outside of superannuation. This entrenches unfair taxation arrangements in superannuation for low income workers and rails against the objectives of having a superannuation system.

- **Superannuation taxation reforms must be biased in favor of retirement income streams.**

Taxation treatment that favours retirement income streams will assist retirees to live a comfortable retirement for a longer period. It will reduce the propensity to exhaust savings early during retirement. This is not to say that small balances should be coerced into a retirement income stream system.

Question 25. Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividends be improved?

AustralianSuper submits that there are substantial benefits to Australia in the continued operation of the present dividend imputation system. AustralianSuper strongly supports the dividend imputation system and opposes modification or removal of the system.

- **Retirement savings of Australian individuals**

The imputation system prevents double taxation of Australian company profits that would otherwise arise in the hands of shareholders (including superannuation funds). Modification or removal of the present imputation system would therefore have a direct impact in significantly reducing the after-tax returns for members of superannuation funds. This results in Australians retiring with lower amounts of retirement savings, and with possible increase reliance on the Age Pension.

- **Stability in the Australian share market**

The imputation system supports higher payments of corporate tax from Australian companies. This is because any reduction to such tax payments reduces the ability of Australian companies to pay franked dividends to their shareholders.

In this regard, the imputation system also corrects bias that may otherwise occur towards debt financing of Australian companies which arises from the fact that interest payments (but not dividend payments) are tax deductible to companies. In doing so, the imputation system encourages lower leverage and supports less volatility in the Australian share market.

Further, the future value of imputation credits are factored into the share price of many Australian companies. Modification or removal of the imputation system could therefore lead to corresponding reduction in the value of shares in the Australian share market.

- **Australian capital allocation**

The Australian superannuation industry generally holds a strong investment allocation in Australian equities for a variety of reasons including those outlined above. AustralianSuper

is therefore concerned that modification or removal of the imputation system could lead to significant amounts of capital in the superannuation system being reallocated towards foreign investment on the basis that such reallocation could provide comparative benefits to the retirement outcomes of Australian superannuation fund members.

If you have any questions please do not hesitate to contact me on 03 8648 3847 in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read "Louise du Pre-Alba". The signature is written in a cursive, flowing style.

Louise du Pre-Alba
Head of Policy