The current reviews of the taxation treatment of superannuation and the related issue of retirement incomes policy provide a unique opportunity to improve outcomes and equity in both areas.

The current taxation treatment of superannuation is grossly unfair and counter-productive and should be remodelled as part of the current review.

First, it is appropriate to consider the rationale for allowing preferred tax treatment for superannuation savings. The underlying principle, from a tax perspective, should be that providing tax benefits during a person's working life will remove or reduce their demand for support via transfer payments, most particularly the age pension, in retirement.

The current system does this to a degree, but it is highly inefficient and grossly inequitable in that regard. For example, the biggest tax savings typically go to the wealthiest people who would not receive a pension in retirement even if they had no superannuation.

This potentially can save these individuals millions of dollars in taxation during their working lives and millions more in their retirement, yet produce no saving to taxpayers. This is entirely contradictory to the aims of a progressive tax system under which people should pay more – absolutely and proportionately – as their incomes rise.

Conversely, those at the bottom end of the income scale can be worse off or no better off during their working lives through their forced contribution to superannuation. In theory, many would be better off investing outside superannuation, although in practice they may well consume rather than invest if their employer did not contribute to super on their behalf.

One of the biggest anomalies surely relates to eligibility for a government co-contribution of up to $1500 for low-income earners who contribute $1000 of their after-tax dollars to superannuation. In practice, this opportunity is most probably used by wealthy individuals who have ample funds despite their low taxable income, or by individuals whose spouses or partners earn high incomes.

It is improbable those most in need of support would have the funds to contribute to attract the bonus. This anomaly is exacerbated for those on the lowest incomes.

For example, an individual who would not ordinarily pay tax on their income (after allowing for the low-income threshold) could have $1000 contributed to super on their behalf by their employer. This will be taxed at 15%, meaning they will have $850 working for them, whereas if they had received the $1000 directly they would have paid no tax.

Worse still, if they could have made the $1000 contribution to super from their after-tax incomes, they would have received a $1500 co-contribution. In other words, wealthy individuals with low taxable incomes can achieve a superannuation balance of $2500 for a $1000 contribution, while others see their $1000 employer contribution lead to a balance of $850.

I believe the government recognised some of the inequities inherent in the superannuation system when it revised the design of the First Home Saving Scheme. In particular, by offering a capped rebate, it reduces the imbalance in the benefit between those on high incomes and those on low incomes, notwithstanding that those on higher incomes are more likely to be able to make the contributions required to attract the benefit.

I propose that superannuation should be restructured on a similar basis. The first step in achieving that would be to add the current SGL entitlement to each person's pay. This additional income would then be subject to tax at the individual's marginal tax rate.

The second step would be to recast the SGL as a compulsory employee contribution. While the appropriate level requires further research that I do not have the resources to undertake, I believe that, under my proposals, it could be set at a minimum of about 5% of gross pay to achieve a better outcome than the current arrangements.

Then, instead of taxing the contributions, the government would offer capped co-contributions. The first $1000 should attract a 150% co-contribution, effectively extending the current provision to all taxpayers who by choice or compulsion make that level of contribution.

The appropriate level of additional government contributions, once again, requires further research beyond my resources. However, as a guide, I would suggest contributions between $1000 and $3000 attract matching co-contributions and those between $3000 and $5000 attract a 50% co-contribution.

To enhance the equity of the scheme, I propose that all people over the age of 18 be entitled to contribute and receive the co-contributions regardless of their work status. Additionally, those making compulsory contributions should be able to specify that half of their contribution be paid into the superannuation account of a spouse (married or de facto).

These measures would address another major identified failing of the current superannuation system, namely the imbalance between those who work full-time from the completion of their education until retirement and those who have time off, or work reduced hours, while raising a family or through unemployment.

In addition to those contributions attracting government co-contributions, all people over the age of 18 would be allowed to contribute a further $10,000 a year to their own and, if applicable, their spouse's superannuation account. This also would be the ceiling on contributions, regardless of the percentage of income it represented.

Where people do not earn the income to compulsorily, or do not have the means to voluntarily, make the full allocations of $5000 that attract the co-contributions and the $10,000 that do not attract co-contributions in any year, then those amounts should be allowed to be made up in future years.

In practice, this should mean that all people would have the right to contribute $250,000 that attract co-contributions between the ages of 18 and retirement (or an age cap) and, likewise, $500,000 that do not.

Catch-up contributions could be allocated proportionally into the various levels of co-contributions, including allocations not attracting a co-contribution, in line with where previous contributions have been in shortfall of the entitlement.

For those with existing super, where determining the proportion of the balance that has come from contributions and earnings could be problematic or costly, the assumption could be that half has come from contributions. This amount could then be divided proportionally into the various categories for attracting, and not attracting, co-contributions.

Again, these measures would provide a more equitable outcome for those who spend time out of the workforce and for the self-employed.

I believe these measures would give many more Australians a healthy superannuation balance at retirement, while placing a desirable restriction on the massive sums that can be accumulated through large salary-sacrificed contributions.

I have produced some preliminary tables (not included) to show the impacts on the super contributions of individuals at various levels under my proposals. These show that low to mid-income earners would have both more take-home pay and higher super contributions, while those who currently salary sacrifice may have higher take home pay, but pay more tax and have lower super balances.

From an overall tax perspective, I am confident that any modelling would should the net gain in income tax receipts by removing the inequitable opportunity to salary sacrifice into super would more than offset the higher contributions paid to low income earners and the removal of the tax on pre-tax contributions.

The next element I wish to briefly address is the taxation treatment of earnings in superannuation funds. The current levels of 15% for income and 10% for capital gains are reasonable, but I believe there may be merit in adopting a similar approach to deemed income as applies to pension recipients with savings.

A tax of 1% of the opening or closing balance of a fund would be roughly equivalent, over time, to the current tax, assuming earnings of about 7 to 8%, depending on the proportion of realised capital gains and value of dividend imputation.

I believe that rate should rise to 3% on the amount of the balance in excess of $1.5 million, which would be more in line with the top marginal rate. This again would improve the equity without lessening the attractiveness of superannuation as a retirement savings vehicle for typical Australians.

Moving to retirement incomes, I believe the nexus between superannuation savings and tax-advantaged retirement income products should be eased. I note it is a government requirement on this inquiry that withdrawals from superannuation funds must remain tax free after age 60 and I believe this is good policy in any case, subject to the changes I am proposing.

I believe all Australians should have the opportunity during their life-time to contribute a maximum of $1.5 million into approved retirement income products, regardless of the source of those contributions, once they have retired beyond a specified age (currently 55 and rising to 60) or reached a nominated age, say 70.

These approved retirement income products would, as now, not be taxed on their earnings or distributions, and would be subject to annual, age-based minimum and maximum withdrawal levels.

This provision allowing funds from outside superannuation to be contributed would be especially useful for small business operators, who may cash in the goodwill of their business at retirement and have contributed relatively little during their working lives.

Equally, it would give elderly recipients of bequests an opportunity to add to their tax-advantaged retirement savings. With the ageing population, it is no doubt becoming more common for people to receive inheritances after they have retired and currently they may be unable to boost their superannuation.

However, this provision would not allow retirement savings to be increased back to $1.5 million if they have fallen due to withdrawals or declines in market values. Rather, it would be a right to contribute a life-time minimum of $1.5 million into tax-free retirement income stream products, regardless of the source of those contributions.

Given that having this amount in a tax-free environment should allow a person to live comfortably without resort to the pension, the benefit to the community is clear. Yet it is no so excessive as to represent a massive drain on taxation revenues.

Where a person’s superannuation savings exceed $1.5 million, they should receive the balance tax-free on retirement (subject to existing age limits) or attaining the age of 70, whichever comes sooner. This money, if invested outside the superannuation and retirement income products, would then be subject to the normal tax treatment.

For consistency, funds remaining in super below $1.5 million and all retirement income account balances should be transferred to an estate tax-free. A surviving spouse may have the right to add the sum to their own super or retirement income account, depending on existing balances.

The final element of my strategy would be a new policy on withdrawals from super. I propose that all retirees have the right to withdraw the first $250,000 of their superannuation savings for use as they see fit.

However, the next $250,000 should be required to be contributed to an approved retirement income product with minimum and maximum annual withdrawals allowed and required as now.

For superannuation savings between $500,000 and $2 million, a minimum of 50% should be required to be contributed to an approved retirement income product. Of course, retirees could choose to contribute as much of their superannuation as they wish to their retirement income account, subject to the cap of $1.5 million that also includes contributions come from outside the superannuation savings system.

I believe a requirement to preserve a substantial portion of superannuation savings in a retirement income account is fair and equitable in return for the tax concessions afforded in accumulating it. Of course, maintaining these funds in a retirement income account will provide the means for people to live without accessing as much (or any) of the age pension as they might otherwise receive.

I believe the weakness of the current system is that potentially almost unlimited amounts of money could be amassed in superannuation by wealthy Australians during the working years. A person contributing $50,000 a year for 50 years, earning a 5% return above the inflation rate in super, would accrue more than $20 million in superannuation, based on my calculations.

It is not fair or equitable, and potentially not sustainable, to have such large sums earning income that is tax-free at both the earnings and distribution stages during retirement.

I should note that all figures used in this proposal are in current dollars and would need to be indexed in line with inflation and special provisions for hardship cases would be required as now.

In summary, I believe my proposal retains the best features of the existing system, if at a modified level for the wealthiest Australians, while rectifying some of the anomalies.

In particular, it would provide improved outcomes for those on low incomes and those who do not work full-time for extended periods. It would continue to be generous towards the wealthy, but not excessively as at present.

Notably, I believe the proposal would be positive for net tax revenue, offsetting the more generous benefits to lower income earners by removing the opportunity for salary sacrifice contributions among high income earners. (I should add that I make salary sacrifice contributions as I am entitled to under the current rules, even though I think this is poor public policy.)

It also would reduce the demand for the age pension over time, while requiring wealthy seniors to make a more appropriate taxation contribution.

The outcome would be a system that provides a level of benefit during a person's working life more commensurate with the saving in their demand on the public purse in retirement. As stated at the outcome, this is the logical role of superannuation and retirement incomes policy from a tax perspective, as well as being sound public policy generally.