Australia's Future Tax System

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This submission responds to the following terms of reference:

4. The review should make coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for:

   4.1. workforce participation and skill formation;

   4.2. individuals to save and provide for their future, including access to affordable housing;

   4.3. investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness; and

   4.4. reducing tax system complexity and compliance costs

Submission

Key Message

To improve individuals to save and provide for their future,

- the 9% super guarantee should remain preserved,
- salary sacrificed and undeducted contributions to superannuation should be accessible but only at marginal tax rates.
- or alternatively create a separate superannuation account similar to the First Home Saver Account (FHSA) where voluntary contributions can be reversed to provide access.

Discussion

It is widely accepted that current contributions to superannuation are insufficient for retirement funding.

Numerous changes to superannuation have tried to simplify and enhance contributions to increase superannuation. These included simpler super in 2006, where the back end of the system was simplified. Unfortunately the front end has had no real big change to create a cultural shift in attitudes to close the gap in retirement funding.

One of the major disincentives to contribute to superannuation is preservation. Previous discussions about relaxing preservation have always assumed access to the whole account i.e. (9% Super Guaranteed + Voluntary Contributions). Therefore the risk of 100% draw-down exists and thus relaxation of preservation is never accepted.

Why can we not have two separate accounts. The existing 9% super guarantee would remain preserved, and a separate new account for voluntary contributions with access and a reversible rebate to ensure money is received back at marginal tax rates.

The First Home Savings Account (FHSA) was created with tax concessions for housing. Why not a separate account for voluntary contributions for retirement funding. This would ensure that existing superannuation accounts are not eroded and that only new contributions could be accessed.

How it works

An account similar to the First Home Saver Account (FHSA) would be advantageous, but with a reversible rebate, that is paid back to government if funds are withdrawn.

For example, an average weekly earnings individual ($0.70 in the dollar) who contributes $5000, attracts a rebate of $750 (15% rebate).

Hence $5750 is earning interest that is taxed at 15%. Whereas earnings on the $5000 are taxed at the 30% marginal rate.

Upon withdrawal the $750 is paid as an exit tax back to government with the individual getting back their original $5000.

Advantages,

- This account would be more flexible and compatible with societies current work environment where on\off work and savings patterns exist. Access would optimise savings as it allows it to sit in superannuation and be drawn-down for contingencies. Rather than sit outside super and taxed at marginal rates.
- A reversible rebate combined with access to voluntary contributions provides incentive and flexibility to contribute to retirement funding at an early age.
- Women who intend on having children, but are not sure when, could make large contributions to the account at an early age. Then take time off work to raise their children and draw-down their account and then return to work and re-commence contributions.

- Complicated tax components are taxed within the fund and handled by the fund manager and tax office, thus providing efficiencies in account processing. Leaving a large portion of the population to only enter their pay slip on their tax return on the internet.

- Media commentators would change their general belief that young individuals should not contribute to superannuation. Thus creating a cultural shift in attitudes towards superannuation and retirement funding.

- This account provides a competitive savings vehicle because of the removal of preservation, when compared with negative gearing and making extra repayments on a home loan. For example, extra home loan repayments could be directed towards superannuation thus improving their retirement savings. And in doing so, reduce their home loan rate by 0.5 to 1.5% as a redraw facility is not required. Thus further increasing their available savings for retirement.

- Individuals will take a more active role in following their superannuation because they receive a rebate to invest, and can access their voluntary contributions via the internet similar to their transaction account.

- Government has a hedging if money is withdrawn before retirement age.

Conclusion

Having the first 9% locked away ensures a minimum base for retirement funding, with incentives and access used to attract additional contributions in a separate account.

This approach to separate super guaranteed and voluntary contributions is a best of both worlds approach. It is designed to create a cultural shift in retirement funding within our ever more changing lifestyle and working environment.

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