ING Australia's

Submission to the Review of
Australia's Future Tax System
(AFTS)

17 October 2008

Introduction

ING Australia Limited (ING Australia) is one of Australia's leading fund managers, life insurers and superannuation providers with more than $45 billion in assets under management. ING Australia is a joint venture between the global ING Group, which owns 51%, and one of Australia's major banks, ANZ, which owns 49%.

ING Australia provides a broad range of financial products and services through an extensive network of professional financial advisers and financial institutions, including its own advice groups.

ING Group is a global financial services company of Dutch origin with 150 years of experience, providing a wide array of banking, insurance and asset management services in over 50 countries. Our 120,000 employees work daily to satisfy a broad customer base: individuals, families, small businesses, large corporations, institutions and governments. Based on market capitalisation, ING is one of the 20 largest financial institutions worldwide and ranked in the top 10 in Europe.

We welcome the opportunity to provide a submission to the Review of Australia's Future Tax System (AFTS).

ING Australia, along with other participants in the wealth management, superannuation and life and general insurance industry, plays a critical role in helping individuals to manage and grow their wealth and in mitigating risks to the community that, if not transferred to the insurance industry, would normally cause hardship or extreme disadvantage in the event of a catastrophic incident such as a natural or other disaster that would cause damage to or loss of personal property and/or impairment or loss of life.

In playing this role our customers understand that we stand behind them in the good times and the bad – protecting the car, the home and the family, reinforcing the very fabric of our society. In providing this safety net we effectively supply an insurance policy to the economy to the extent that the ability to grow wealth and transfer risk means there is less reliance on social security and public health systems by the community. In the case of a significant natural disaster for example, it has been shown that an economy recovers more quickly when a large proportion of the losses can be reinstated because of insurance protection.[1] The money we invest on behalf of Australian's also helps lubricate economic activity.

Despite these benefits, underinsurance and non insurance continue to pose a significant threat to the well being of individuals and the community. Rice Walker reported to the Investment and Financial Services Association (IFSA) in 2005 that a broad estimate of the amount of underinsurance for parents in Australia with dependent children is of the order of $1,300 billion.[2] The Insurance Council of Australia's submission to the AFTS also identifies the scope of the non insurance problem as it pertains to business and home and contents insurance and, with the benefit of research into price elasticity[3], found that households are sensitive to price signals – a key argument to consider when assessing the impact that taxes on insurance have on human purchasing decisions.

Against this backdrop Australia maintains a punitive approach to the taxation treatment of both life and general insurance. Inquiry after inquiry, report after report have identified the taxing of insurance as inefficient and counter to the merit good it represents – an opportunity for people to take prudent action to take care of themselves and their families.

These inquiries and reports include, but are not limited to:

- The HIH Royal Commission which recommended the reform of general insurance taxation including Fire Service Levies (FSL) and stamp duties;
- The Independent Pricing and Regulatory Tribunal also recently recommended reform of the same;
- The House of Representatives Select Committee Report into the Recent Australia Bushfires (reporting in October 2003) recommended FSL reform;
- Rice Walker Actuaries Report for IFSA, "Cost of Underinsurance Project (Stage 2)- Analysis of Income Protection Needs, (July 2006);

1 Wittner, G. 2004, *„Modelling the Economic Impacts of a Significant Earthquake in the Perth Metropolitan Area,„* 30 June, Centre of Policy Studies, Monash University, prepared for Geoscience Australia in collaboration with D. Mullaly and M. Milne.

2 Rice Walker Actuaries Report for IFSA, *"Cost of Underinsurance Project (Stage 2)- Analysis of Income Protection Needs„* (July 2006).

3 Tooth, Richard (2007) *"An Analysis of the Demand for House and Contents Insurance in Australia"* (A report for the Insurance Council of Australia).

- Rice Walker Actuaries Report for IFSA, "Cost of Underinsurance Project- Analysis of Life Insurance Needs (May 2005);

We do not intend to extensively refer to the considerable body of work that exists in support of insurance tax reform and the manifest benefits it delivers to individuals, communities and the economy. We believe that Government is fully aware of the compelling case for insurance tax reform posed by this accumulation of research and inquiry – the trigger for reform of this area is now dependant on the political will for change and competing priorities.

On the affordability of insurance tax reform, we note the Prime Minister's $10.4 billion package to stimulate the economy that focussed largely on quick spend grants to pensioners and low and middle income families. While it is acknowledged that expenditure of this nature is necessary to protect the economy during the global financial crisis, it is an interesting observation that for a comparable spend ($10.5 billion) the Government could have removed *ALL* State stamp duties after taking into account second round effects.[4] With insurance taxes representing $1,411 million, their phased removal over a number of years, consistent with the approach taken with the Intergovernmental Agreement between the Commonwealth and the States (2000), would provide an economically responsible basis for effective insurance tax reform.

In keeping with our commitment to help Australian's achieve their aspirations to grow their wealth and to have adequate retirement income, our submission also considers tax reforms aimed at making life insurance and financial planning advice fees tax deductible, encouraging medium and long term saving through the superannuation system and the establishment of low tax or tax free investment vehicles.

Our submission also considers ways that Australia could provide a greater competitive advantage over other investment destinations – primarily through a reduction to the corporate tax rate.

While ING Australia recognises the inherent difficulties in trying to simplify the taxation system, ING submits that there are many areas of tax legislation which generate unnecessary compliance costs and uncertainty. As such, ING supports current Government initiatives which aim to achieve simplicity and certainty in the Australian taxation system, including Product Rationalisation, The Board of Taxation review into a Managed Investment Tax Regime and the Board of Taxation review of the Anti-deferral Regime.

4 Access Economics (2008) *"Analysis of State Tax Reform including Taxes on General Insurance"*

<u>Executive Summary</u>

ING Australia believes the AFTS provides an historic opportunity for the Australian Government to address the long standing inequities and economic inefficiencies associated with insurance taxes and their impact on the decisions of individuals to prudently insure life and assets. We also believe it enables the Federal Government to directly address issues around the adequacy of the future retirement incomes of Australians and the need to lift medium term savings and to significantly improve Australia's global competitiveness.

1. Addressing the underinsurance problem

<u>State Taxes on Insurance</u>

ING recommends that:

- Stamp duty on life insurance, including duty on life insurance riders, should be abolished
- Stamp duty on general insurance should be abolished
- The Fire Services Levy should be abolished
- In the absence of immediate abolition, state taxes should be harmonised in the interim

<u>Tax concessions on insurance premiums</u>

ING recommends that:

- Tax deductions for life insurance premiums should be available to all taxpayers
- Life Insurance policies should be subject to equivalent tax treatment inside and outside of super

2. Encouraging long term savings

<u>Superannuation adequacy</u>

ING recommends that:

- The superannuation guarantee be increased from 9% to 12%, in 1% increments from 2010 to meet adequacy requirements.
- A soft compulsion approach should be considered where employees are required to contribute a small percentage of their gross income, however could opt out of higher contributions should they choose

<u>Encouraging low income earners to contribute to superannuation</u>

ING recommends that:

- Steps need to be taken to provide a measure of tax concession in respect of superannuation contributions for low income earners
- Consideration be given to a rebate of contributions tax paid by low income earners.

3. Encouraging medium term savings & investment incentives

<u>Encouraging medium term savings products</u>

ING recommends that:

- Consideration should be given to the introduction of withholding tax (say 10%) on interest income
- Consideration should be given to a tax free (or low tax) investment scheme for the short to medium term, in a structure similar to the Investment Savings Accounts in the UK

Taxation of managed funds

ING recommends that:

- CGT treatment should apply to gains and losses arising from the disposal of all assets (other than traditional securities) held by managed funds

Life insurance – ordinary investment policies

ING recommends that:

- CGT treatment should also extend to assets supporting ordinary investment policies issued by a life insurance company

Tax deduction for fees for financial planning advice

ING recommends that:

- A deduction should be available for financial planning advice for individuals

4. Increasing Australia's global competitiveness

ING recommends that:

- The corporate tax rate be reduced to 20%

Australia's Underinsurance Gap

The provision of life insurance results in significant social and community benefits. This is because this protects the community from significant ill-effects arising from pre-mature death and disablement of members of the community.

Life insurance contracts enable significant lump sum payments to be made to enable the insured and their dependents to repay home mortgage and other debts. These contracts also enable periodical income payments, especially in the case of temporary or permanent disablements, in order to enable the insured and their dependants to meet their day to day living costs. This also assists the Federal Government in that these lump sum and periodical income payments reduce the need to disablement or age pensions to the insured and their dependants.

Thus, provision of life insurance serves extremely useful social, community and governmental purposes.

The community should also be encouraged to obtain general insurances such as fire insurance, motor vehicle insurance and other insurance that protect families from large unexpected losses. As a practical matter, these insurances are voluntary. However, we submit that Governments should encourage people to insure themselves from potential large calamities, such as fire.

Since currently, most insurance is voluntary, it is necessary to reduce costs of obtaining insurance to increase the level of insurance in the community. Costs such as state insurances taxes and fire insurance levies increase the premium costs of obtaining insurance.

It is thus necessary to consider abolition of state taxes on insurance to assist in a more equitable distribution of fire service costs, and increase the level of community coverage against these risks.

ING Australia submits that the provision of life insurance should be actively encouraged and supported by the Federal and State Governments.

State Taxes on Insurance

Under the current Duties laws of various States and Territories, duty is imposed in respect of premiums received by life insurance companies. Only the State of Western Australia does not impose any duty on life insurance premiums.

Duty is also imposed on various types of general insurance policies. This includes fire service levies imposed on premiums paid for fire insurance policies.

For example, during the 2006-07 financial year, States and Territories collected total tax revenue of $48,911 million. Of this, insurance taxes totalled $3,714 million, represents 7.6% of the all tax revenue. Of these amounts, NSW collected total tax revenue of $17,713 million, with insurance taxes being $1,443 million, representing 8.15% of the total tax revenue.

During the 2007/08 financial year, NSW collected insurance taxes totalling $1,321 million comprising:

- Insurance Duty $616 million
- Fire Brigade Levy $367 million
- Bush Fire Services Levy $146 million
- Health Insurance Levy $123 million
- Insurance Protection Tax $ 69 million

Total insurance taxes $1,321 million

Total NSW State Tax revenue $17,562 million

Percentage of insurance taxes to total tax revenue 7.52%[5]

Available data indicates that during the 2007-08 financial year, NSW collected life insurance duty of $19.7 million, out of the total insurance taxes of $1,321 million. This reflects only 1.49% of the total insurance taxes.

The situation in other States and Territories in the area of total life insurance duty collected vs total insurance taxes collected would likely to be similar.

ING Australia submits that the costs of collecting and maintaining the life insurance duty by the industry and the Governments represent a very large part of the revenue collected. These costs are exacerbated by the complexities involved in imposing different rates of duty for different types of life insurance policies such as whole of life and endowment policies, and term and accident and disability benefits provided as riders to life insurance policies. Further, some States seek to apply different interpretations with a view to classifying policies between life insurance and general insurance policies, and undertake “audit” activities to support a small revenue base.

The compliance costs are further increased due to States and Territories imposing duty at varying rates. Further, some States interpret meaning of the term “life insurance premiums” differently so as to impose duties at higher rates applicable to general insurance contracts.

For example, in the case of long term life insurance contracts, all States and Territories, except South Australia, impose duties on the basis of “sum insured”, whereas South Australia imposes duty on the basis of premiums collected.

Similarly, the duty charged in respect of term or temporary policies by South Australia is different from that charged by all other States and Territories.

Further, the method used to calculate the duty on these life insurance contracts vary from State to State.

5 Source: Independent Pricing and Regulatory Tribunal NSW Other Industries – Draft Report to Treasurer – June 2008)

There are also differences among States and Territories on the duty treatment for "life insurance rider" premiums. Whilst NSW and ACT impose the same duty as for term or temporary policies, other States calculate the duty differently.

South Australia imposes duty at 11% of the premiums attributable to these riders, as that State treat these riders as "general insurance premiums".

Variances in rates and methods of calculating the duty increase compliance costs significantly, and act as a disincentive to obtain life insurance contracts. This has negative effects both at the business and consumer levels. While a consistent application of life insurance duty by the States would reduce compliance costs, our preferred approach is to have life insurance duties abolished (see below).

Insurance Duty is widely regarded as an inefficient tax creating disincentives for people to take out appropriate levels of insurance. On this basis, its abolition should be a priority.

The application of FSL, followed by GST and stamp duties in some States creates a tax on tax on tax cascading effect with each tax amplifying the one that came before it – adding a significant financial cost on top of base insurance premiums.

A NSW Independent Pricing and Regulatory Tribunal (IPART) Report made the following recommendations, having regard to factors such as the need to consider impact on the NSW State revenue etc:

- General insurance rates should be reduced from 9% to 6%; and
- Fire Service Levy should be abolished.

Although the Report did not make any specific observation on the abolition of duty on life insurance policy premiums, ING Australia believes this is because the duty raises a very modest amount for the revenue, and it is generally covered by the observations about the extreme inefficient nature of insurance duties.

Funding Insurance Tax Reform

The recent report prepared by Access Economics Pty Limited for the Financial Industry Council of Australia, Access Economics has concluded that Insurance Tax imposed by the States and Territories is the second most "inefficient" tax beaten only by Motor Vehicle Taxes.

The Access Economics Report suggests that abolition of all insurance taxes would result in a total revenue loss of $1,411 million (based on the 2005-06 year revenue collection) for the Sates and Territories, but would be compensated for by sufficient increases in additional consumer expenditure.

The Access Economics Report has suggested some options for achieving some sort tax neutral outcome in favour of the abolition of all state taxes in respect of insurance. We note that these options would require co-operation between the Federal and State Governments.

We are also aware that, with respect to FSL reform, several options exist to replace existing insurance based funding of fire services. We note the successful scheme in Western Australia where fire and emergency services are funded from a property based levy and is collected by Local Government. The Property Council of Australia has also proposed a levy on electricity usage. While we are agnostic about what is the most appropriate replacement method for the current FSL system as it applies in NSW and Victoria, we believe the Western Australian system and the proposal put forward by the Property Council would appear to be fairer and more equitable than the current approach, since both proposals are broad based (ie they capture either all property owners or all electricity users) and do not give rise to the cascading taxation effects referred to earlier.

In summary, ING Australia submits that life insurance duties imposed by various States and Territories should be abolished immediately. The continuation on the ground of revenue v cost of collection alone is not justified.

ING Australia also submits that if abolition of all life insurance taxes is not considered feasible, the States and Territories should harmonize all life insurance duties including duties on policy riders and disability income benefits to the lowest possible level.

ING Australia also submits that all general insurance taxes and fire service levies should also be progressively abolished.

Tax Deductibility of Life Insurance

Currently, taxpayers do not obtain a tax deduction for insurance premiums for procuring life insurance contracts where the policies are obtained outside the superannuation environment. Although a deduction can be claimed in respect of income protection policies, the deduction is not generally available where the taxpayer is not engaged in an income earning activity when the policy is obtained or the premium is paid.

This unavailability of a tax deduction acts as a disincentive for obtaining policies in order to protect the community sufficiently against pre-mature death and disablement.

It is not clear to us as to why a difference in tax treatment of the deductibility of premiums between the superannuation and non-superannuation environment is being maintained. This distinction also discriminates between persons who are able to access life insurance cover via superannuation and those who can not.

The availability of a tax deduction for premiums outside superannuation would allow consumers to decide how they wished to secure life insurance cover, especially where they may wish to retain maximum possible superannuation benefits without it being dissipated by life insurance premiums.

ING Australia submits that there are significant social, community and governmental benefits in wide-spread use of life insurance to protect the community. This would also save resources required to pay disablement and age pensions by the Federal Government in many cases.

Thus, ING Australia submits that tax laws should be amended to allow a tax deduction for life insurance premiums paid by all taxpayers.

ING Australia also strongly submits that income tax deduction should be allowed for certain general insurance premiums, such as fire insurance policy premiums, in order to encourage the community to obtain appropriate coverage.

Consistent Treatment of Life Insurance Inside and Outside of Superannuation

Death cover and total and permanent disability (TPD) cover are treated differently for tax purposes (in relation to benefit payments), depending upon whether they are offered inside or outside superannuation.

The taxation treatment of death and TPD cover is more favourable inside superannuation than outside. This differentiation makes it difficult for an employer to provide death and TPD cover to all employees equally, where some have made a 'choice of fund'. It also limits members ability to tailor their insurance arrangements inside and outside of superannuation as they see fit.

In addition, TPD cover and income protection cover cannot be offered within superannuation, without some portion of death cover being taken out at the same time (as a result of the requirements of the sole purpose test). This restricts member's ability to tailor their insurance cover to suit their needs.

ING Australia submits that the treatment of cover within superannuation be amended such that TPD cover and income protection cover can be taken out independently. In addition, the taxation treatment of death and TPD cover should be the same, whether arranged inside or outside of superannuation.

Making the arrangement of insurance more flexible for employers and individuals may help to alleviate problems associated with underinsurance by making insurance easier to arrange and more attractive. This should also increase competition within the insurance market, further reducing costs.

Encouraging long term savings

Adequacy of Superannuation Savings

Currently, compulsory superannuation guarantee contributions are required at 9% of the “ordinary time earnings” of an employee, subject to a maximum wages threshold. Numerous research has suggested that accumulation of contributions at the rate of 9% is unlikely to be sufficient to provide an adequate income in retirement. This in turn is also likely to put pressure on Governments to pay adequate age pensions to eligible people, creating a potential social security crisis.

ING Australia submits it is necessary to avert such a situation through an increase to the level of Superannuation Guarantee contributions as soon as practicable. In particular, consideration should be given to increasing the level of Superannuation Guarantee contributions to 12 percent in 1 percent increments per year from 2010.

ING Australia would support a soft compulsion approach where employees are required to contribute a small percentage of their ordinary time earnings, however could opt out of higher contributions should they so choose.

Encouraging low income earners to contribute to superannuation

Apart from owner-occupied homes, superannuation is Australia’s principal tax-preferred savings vehicle. Tax concessions for superannuation arise at three levels: capital contributions, investment income on the capital contributed and assets accumulated, and benefit payments.

Tax-deductible contributions are taxed at 15% at the fund level. This provides tax concessions to those taxpayers whose taxable income exceeds $34,000, but no tax concessions to those taxpayers who are at lower income levels.

Investment income on the assets invested and accumulated is taxed at the concessional rate of 15%. Here again, the tax concession advantages people at higher income levels.

Benefits, both lump sums and pensions, received from a superannuation fund after the recipient reaches age 60 are completely tax-free.

In addition, the Government makes co-contribution at 150% of a member’s tax-paid contribution to a fund, subject to a maximum of $1,500 per contributor.

It may be noted that, apart from the Co-contribution, the current superannuation system does not provide any particular tax benefits to those people who are at lower income levels.

The “Architecture of Australia’s tax and transfer system” document (“the Document”) issued by the Treasury states that the value of the superannuation tax concessions provided to contributions and earnings is estimated to be over $27 billion in 2008-09, increasing to over $31 billion in 2010-11.

The Document also acknowledges that, based on the 2008-09 tax rates, around 1.2 million individuals do not receive a personal income tax benefit from the tax rates applied to their concessional superannuation contributions. Further, a further 1.2 million people receive only a marginal benefit from the superannuation contributions.

ING Australia submits that steps need to be taken to provide a measure of tax concession in respect of superannuation contributions for people at the lower income level.

ING Australia supports recommendations made by IFSA and the FPA for a rebate for superannuation contributions tax paid by low income earners in order to increase retirement savings for those Australians in most need. The Australian Tax Office would pay an amount equivalent to 15% of the concessional contributions made on behalf on an individual to their superannuation fund. This payment would be made once the individual's income tax return had been assessed and would be means tested.

Encouraging Medium Term Savings

The architecture of Australia's tax and transfer system paper explains that Australia has a low household savings rate, in fact Australia is ranked 17th out of the 28 OECD countries. It also notes that Australia collects a higher proportion of its total taxes from capital than any other OECD country.

Individuals and businesses make savings and investment decisions based on a number of factors, including the tax treatment of the investment. Accordingly, savings and investment initiatives with tax incentives must be a key objective of Australia's Future Tax System Review if we are to encourage Australian's to save.

ING Australia notes the Government's introduction of the First Home Saver Account (FHSA) but also submits significant attention needs to be given to encouraging medium term savings. Further initiatives should be developed to encourage Australians to save for things other than their home, such as child education and unexpected large medical expenses. Australians should also be encouraged to save to accumulate financial capital and reduce dependence on credit.

Some international comparisons provide insight into possible tax structures for use in Australia. For example, Australia could establish investment vehicles designed to operate much like those used in the US and UK, such as Tax Free Mutual Funds and Investment Savings Accounts (ISAs). These tax free investment vehicles are designed to help people save for the medium term. The specific timeframe for investment depends on the type of asset invested in through the scheme e.g. shares or cash.

Schemes of this nature typically allow the use of managed funds and they set limits on the amount of money that can be contributed up front and over time, or they set rules around the use of money withdrawn. Some are established in a similar manner to Australia's FHSAs with top-ups much like the Australian Government co-contributions and tax free withdrawals provided withdrawals are used to finance qualified expenses. Where withdrawals are used to fund expenses other than qualified expenses, a low rate of penalty tax applies (usually around 10%).

ING Australia submits that the legal framework for incentive schemes established in Australia should be designed to fit into existing managed investment structures so that Financial Services companies such as ING can offer them to Australians without having to establish new legal structures and implement new operational processes.

Currently, a punitive tax applies to interest income. Whilst the capital gains on assets held for at least 12 months are subject to a 50% discount, no concession applies to those investors investing in bank deposits. The recent fall in availability of credit on a global basis and the need for central banks to inject large funds into the banking sector has demonstrated a need to encourage small depositors to hold deposits in bank accounts.

We suggest that the Government consider introducing tax exemption or a low rate of tax on interest income of up to say, $1,000 per annum.

Consideration could also be given to introducing a domestic interest withholding tax of sav 15%.

This domestic interest withholding tax could be a final tax withheld at source, where the aggregate interest income derived by a taxpayer does not exceed a specified threshold amount, thus removing the need for a large number of investors to include interest income in their income tax return. This would also provide a savings incentive and create simplicity by removing the need for certain taxpayers to lodge income tax returns, thus reducing their compliance burden and the administration burden of the Australian Taxation Office.

Taxation of Managed Funds

ING Australia is of the strong view that both the Board of Taxation and AFTS should consider the need for tax neutrality between individuals and collective investment vehicles (hereinafter referred to as "Managed Funds") to create a level playing field.

The Income Tax Assessment Acts currently explicitly recognise a long established principle in relation to managed investment vehicles such as unit trusts operated by the Managed Funds industry. The Tax Acts recognise that an "agent/principal" relationship exists between the Trustee (or Responsible Entity) of a trust and the investors in the trust. Thus, income and gains derived by trusts and on-distributed to their investors retain their character and taxation treatment, as if the income and gains were derived by the investors directly in their personal capacities.

It may be noted that the Funds Management Industry plays a very important role in mobilising savings from large numbers of small investors both in Australia and overseas. The Government would also be aware of the role the Managed Funds Industry plays in encouraging offshore investors to invest in Australia.

Thus, it is essential that Managed Funds retain the current taxation treatment that applies to income and gains derived from the assets managed by Managed Funds. This means that capital gains taxation treatment should continue to apply to gains and losses arising from the disposal of assets such as shares in companies, units in other unit trusts, interest in real estate, etc.

We understand that the Commissioner of Taxation may be considering altering this tax status by claiming that Managed Funds should be subject to the ordinary income principles, as opposed to capital gains, in respect of capital gains and losses arising from the disposal of assets such as shares in companies, even though such gains or losses if derived by the investors directly would have been treated as capital gains or losses, as applicable, for tax purposes.

Specifically, if the Commissioner were to alter the taxation treatment of gains and losses derived by Managed Funds in respect of these gains and losses the following adverse consequences would arise:

- The recently introduced withholding tax concession on distributions of capital gains to non-residents would become largely ineffective, thus detracting from its objective to create Australia as a financial services hub;

- Superannuation funds in accumulation phase would see a 50% increase in the taxation of long term capital gains which would then be taxed at 15% rather than at the discounted rate of 10%; and

- Retail managed fund investors would see a 100% increase in the taxation of profits distributed by the fund which would be taxed at their marginal rates because the benefit of the 50% CGT discount available in respect of long term capital gains would be denied to ordinary "mum and dad" investors.

We are concerned that the proposed ATO approach would create significant uncertainty, not only in Australia but also overseas, as to the appropriate application of the Australian taxation rules. This would also result in the demise of the local Managed Funds industry which has developed over the last thirty or so years.

Whilst the Commissioner has not as yet released any discussion paper on the subject, we ask that the Government make specific announcement assuring the Managed Funds industry that the current capital gains tax treatment will continue. A Government announcement to this effect is essential for maintaining investor confidence in the stability of the Managed Funds industry and the finance industry. This is more so an imperative in the current turbulent economic times.

ING Australia submits that to achieve neutrality of tax treatment between direct and indirect investment by taxpayers in the Managed Funds industry, the CGT treatment must apply to gains and losses arising from the disposal of all assets (other than traditional securities) held by Managed Funds. This tax treatment should be codified in terms similar to the rules applying to superannuation funds under Section 295-85 of the ITAA 1997).

Life Insurance – Ordinary investment policies

ING Australia submits that the CGT treatment should also be extended to assets supporting ordinary investment policies issued by a life insurance company. This would avoid the current disparity between direct versus life insurance investments, and provide further incentives for saving and investment. ING Australia accepts that the capital gains taxation treatment can not possibly be extended to assets held in statutory funds by life insurance companies to meet their risk obligations or capital adequacy obligations. These assets would continue to be held on revenue account in accordance with currently established principles.

Tax Deduction for fees for financial planning advice

ING Australia supports the Financial Planning Association of Australia's submission for allowing tax deductions for advice fees paid to financial planners and advisers to assist investors in making investment decision.

All such fees should be treated as deductible revenue expenditure rather than having to determine their tax deductibility by applying capital/revenue criteria. ING Australia believes the introduction of a common revenue taxation treatment would provide encouragement to investors to seek professional assistance to better manage their financial affairs. ING Australia believes that the availability of tax deduction would help consumers make sound and informed financial decisions, improve retirement income adequacy and reduce reliance on the age pension.

In the long term, this would also assist Governments to save on transfer payments and help the nation to prosper.

Increasing Global Competitiveness

Company income tax is levied at a rate of 30% of taxable income. The tax base applying to corporate income tax is quite wide. This is because capital gains are taxed in full, and minimal special deductions and allowances are allowed. Incentives for investment in capital goods, such as accelerated depreciation allowances, are no longer available.

During the 2006-07 financial year, the Commonwealth Government collected taxes totalling $262.5 billion. Of this, amounts approximating 23% or $60.37 billion were raised in company tax.

Over a 22 year period starting with the 1985 review of the Australian taxation system, the share of company tax as a percentage of total Commonwealth Government tax revenue has increased from 9.6% in 1985 to about 23% in 2007.[6] This reflects a significant increase in corporate tax revenue.

With increasing globalization of resources of production such as capital and labour, it is essential that Australia retains its competitiveness to attract capital, labour and other factors of production for continued development and growth. Australia suffers from certain inherent disadvantages as an investment location. These are: a relatively small economy, geographically dispersed population and situation a considerable distance from world markets.

International research suggests that low tax rates, especially corporate and personal income tax rates, are extremely important to counter-act some of the inherent negatives faced by the Australian economy.[7]

It is therefore necessary to create an environment that would not only encourage greater foreign investment into Australia, but also greater investment into Australia by Australian companies.

The "Architecture of Australia's tax and transfer system" document ("the Document") indicates how Australia's corporate tax rate compares with 29 other OECD countries. It is noted that Australia's corporate tax rate of 30% is higher than 20 other OECD countries, and is reasonably lower than the company tax rate in 4 or 5 other OECD countries.

It is also noted that Australia's position in this regard has worsened steadily over the last 6 or so years. Whilst in 2001, Australia's corporate tax rate was the 9th lowest, in 2008 it has worsened to 21st lowest.

Further, countries, such as United States, Japan, France and Canada which have higher company tax rates than Australia, enjoy larger economies, and are closer to the economic activity centres of the World. Thus, notwithstanding higher rates of company tax, these countries have other significant advantages, which make them attractive places for investment of capital and other productive resources.

It may also be noted that countries like United Kingdom, which have open business connection with larger economies such as the European Union, have a lower effective company tax rate than that of Australia.

In order to retain and improve Australia's competitiveness in world business environment, it is necessary to further reduce the company tax rate in Australia. This would increase Australia's attractiveness as a location for investment by decreasing the cost of capital, or increasing the after-tax return to investors, both overseas and domestic.

ING Australia submits that the company tax rate should be reduced to 20% in order to make Australia a clear leader in providing a competitive advantage over other investment destinations.

It is acknowledged that a reduction in the company tax rate could reduce tax revenue in the short term. However, any shortfall in revenue in the short term should be compensated for by increased levels of investment and business activities in Australia, and in turn, higher levels of tax revenue arising from all sources. It helps to make Australia more competitive when there is a significant downturn in the world economy.

Further, we note that a part of this lost revenue should be recovered due to its inter-action with the full imputation system currently operated. The reduction in the company tax rate to 20% would also reduce the value of corresponding franking credits to 20% of grossed-up income.

Further, depending upon the revenue cost involved, consideration could be given to limiting the extent of actual tax refund that may be allowed re refundable tax offsets arising from unutilized franking credits.

6 *"How Can Tax Enhance Economic and Social Progress"* – Business Council of Australia- p.20

7 *Ibid*- p.17