

A PLEA FOR A NEW SIMPLER TAX SYSTEM

In recent years I have not met anyone who is confident about filling out and filing their own tax returns. Tax pack, a once moderately easy to understand smallish publication has blown out to become much thicker and enormously complicated. Tax pack supplement established itself after a few more years and now, in addition, as you turn the pages of tax pack and tax pack supplement, all sorts of other publications are referred to as required reading. (Few of them easily understood)

About 6-7 years ago, before the age of 55, I tried to bend the ear of our local Federal M P on the subject of compliance for a SMSF and on income in retirement from that fund.

On the floor of the house he'd voted on the subject and other related issues, but knew little about the system and asked me for clarification on the subject in the areas I was enquiring about.

Now in retirement as a self funded retirees, managing their own fund, my wife and I are finding the paperwork, rule changes, administration charges, audit charges, bank charges and A T O supervisory charges all intolerable. Worst of all, the time we loose out of what is left of our lives on compliance amounts to at least 4 weeks every year on top of the time we spend on managing our investments. **We don't need this in retirement.**

Mid last year prior to the elections, I approached our local federal member again and provided him with a letter to pass on to the then treasurer and the shadow spokesman for superannuation for a response. I thought this way I would have a better chance of getting a reply than if I sent a letter directly to the treasurers' department. (Usually mail to politicians go unanswered, or replies avoid the subject in question)

After 3-4 months I got nothing any way, and after a lot of phone calls found my local member never passed it on to the Treasurer. He'd made a few enquires to ATO and promised me a response from the shadow superannuation spokesman's office after the elections. I am still waiting. **(This letter is attached for reference and information)**

THE FOLLOWING EXAMPLE HIGHLIGHTS THE DIFFICULTIES PEOPLE LIKE US FACE TRYING TO PROVIDE FOR THEMSELVES IN RETIREMENT.

We use an administrator for advise on compliance for our SMSF, and for end of year bookkeeping in a format ready for audit and the annual tax return.

In January this year our administrators of 3 years unilaterally increased their fees by 160%, as did the ATO by 233%.

About this time we changed our pensions from the old Allocated pensions to the new Simple Super Pension system.

Due to the above hike in fees and lack of information on the new system from our existing administrator we opted for another service that we later found was not up to speed on the changes.

Because of this, in March/April of this year I spent a lot of time on the ATO website trying to fathom the old and new systems, how we'd handle the change over and how this would affect us in our circumstances. I spent a lot of time on the telephone to the ATO Superannuation area with several specialists and got several, "this is outside the scope of my knowledge" to questions put to them. In my frustration I gave one expert a simplified set of figures to do an example and call me back, I figured I could extrapolate from that into our own situation and understand how it worked. I also highlighted what I thought was an error in an ATO example posted on the web site (he thought it was wrong too, and I highlighted other examples that I thought were misleading) he promised to get back to me. I stayed in the following day waiting for a return call that never came.

In the end I spent another week ringing around and working out what I thought was right, then found another accountant with SMSF expertise who was prepared to handle our year end financial statement, audit and tax return for a reasonable fee, and was able to confirm what we had nussed out looked right. It was a very stressful period over those months.

The reader of this submission might think, "Close your SMSF and Roll Over your balance into a large managed Super and Pension Fund". I would then say that one of these funds, since depositing \$ 6,000 in year 2000, have managed that figure down to about \$3,500 by the beginning of this year (eight years later). The amount I have left is less now since this latest Stock Market turmoil.

In the meantime this managed fund, **through a highly respected company**, has taken yearly fees and the government have taken taxes while I have had nothing during this time, only losses.

We prefer to be responsible for our own investments.

These days you can't walk in to see an expert at the ATO, and if a query is a touch difficult over the phone and an ATO expert can't or won't clarify the situation because it is beyond the scope of their knowledge, you either give up or are passed on to another officer. What hope has the ordinary Australian got when doing their own tax return, as the example above of complexity in super is repeated over many different areas in our tax system

ORDINARY AUSTRALIANS ARE EXPECTED TO BE EXPERTS IN EVERY AREA OF TAX AND SIGN THEIR NAME TO SAY THEIR TAX RETURN IS ACCURATE IN EVERY DETAIL. YET SPECIALISTS WITHIN THE ATO FREELY ADMIT THEY DON'T HAVE KNOWLEDGE IN ALL AREAS.

- a) Do all Australians get a letter from the government telling them there has been a tax law change and explaining how it works?
- b) Do all the politicians understand every aspect of law changes they vote for?

The honest answer to both of the above is **no**.

No wonder the vast majority of taxpayers have to visit an accountant to complete and file their tax returns and these people don't know every thing either.

A NEW SIMPLE INCOME TAX SYSTEM is required for a smart Australia, one that frees up the public sector by having a simple understandable income tax system. This could reduce the public sector and transfer labour into the private sector to alleviate our labour shortages.

I will now ask a Question. What did Self Funded Retirees get from the recent tax cuts? No prizes for guessing **NIL, NIL** and more **NIL**. **What are they going to get in the pension review???** **Probably NIL and what are they going to get if there are more tax cuts. NIL!!!! (I guess if any self funded retirees do get a hand out they'll probably have to register with social security and then there will be more buracuracy and more time lost to government paperwork)**

The main reason for Self funded retirees not getting a tax cut is that the earnings and capital gains from a super fund whose members are in pension mode are tax free, and at age 60 the whole members fund balance can be taken tax-free.

You can't give a tax cut to self-funded retirees if they currently pay no income tax.

You may think what a rort this is for these people, but bear in mind many people have not been able to contribute into Super and get a tax rebate, there are many reasons for this, so their fund balances are from after tax savings and during this meltdown many have lost 25-50% of their balances, this includes us.

Another thing to remember is that these people in retirement cost the taxpayer heaps less than those on a government pension, but they are burdened with extra paperwork and costs.

In our case compliance costs us about 15% of what we spend annually. (We get taxed by default)

Cut complexity and compliance and we do end up with a few extra dollars in our pocket.

Suggestions for a new simple tax system:

- 1) There should be a higher tax-free threshold set at what ever the single old age pension is P.A. and available to all taxpayers at that level.

NOTE. Any allowances and payments for children and special need categories etc, could be administered through one relevant department, *but kept simple*, as too much bureaucracy uses up too much of the funds at hand on public service wages and all sorts of other add on costs.

- 2) All income above the tax-free threshold level should attract income tax at whatever rates the government sets, the same for everyone. In this way non-savers in retirement would get a base tax-free income, and those that have provided additional savings for their retirement get additional income, but that interest/earnings is taxable at normal progressive rates.
- 3) Tax file numbers should be used for all investments.
- 4) The A.T.O. should collect all income and tax paid data based on a TFN and at the end of the tax year provide taxpayers with a statement of earnings and tax paid and provide them with a refund statement or a tax bill (assessment). If you agree with the assessment then the taxpayer actions it. If you disagree, then you file a tax return. This system is in operation overseas already.

Under the present tax system an alternative system for self-funded retirees could be as simple as this for retirees in pension mode.

At age 60, a retiree with a super account can now take a tax-free minimum pension of 4% up to a maximum 100% of the members balance, they can also take any amount, as I understand it, as a tax-free lump sum. (Same thing)

At death there is, I believe, the possibility/probability that part of any balance the deceased has in their super pension fund can be taxed if given to a third party that is not a spouse.

If this is the only reason the ATO needs us to do extensive record keeping every year then it is crazy, especially as the deceased would have had, in many instances, the ability to give that balance away just prior to death without a tax event occurring.

HOW MUCH DOES THIS TYPE OF RECORD KEEPING COST THE COUNTRY AND INDIVIDUALS? IS IT WORTH IT?

A solution to the above could be for any financial asset in a 60+ year olds Superannuation Retirement account (if they are in pension mode) be it in a Managed fund or SMSF, to be tagged with a tax file number finishing with an R. This would signify that any earnings on capital invested were non-taxable and did not have to be declared, i.e. The Super Fund then only reports the Funds balance and the Members balances at year end to the ATO.

The ATO could still do the odd audits based on whatever the new rules were to keep people honest if this was deemed necessary?

If you can withdraw your total balance now tax-free at 60, then why is all the record keeping so necessary?

In the end, the truth of it is this, older people find it hard to keep up with change, they also find it difficult to cope with record keeping, things have to be simple or they get stressed and ill. If they can't cope they give up, they'll spend most of what they have or give it away and apply for a part or full old age pension at 65.

If the politicians and the public sector had to operate their super under the same system as the rest of the public, and had to cope with the same onerous record keeping and rule changes, we might see a real change to a simplified system. Alternatively, the general public, at retirement, should be able to put a lump sum into the government system and get a worry free indexed pension for life.

I hope this submission gives someone food for thought, and does something for ordinary Australians.

Richard Wilson

To: The Treasurer, Peter Costello.

Brisbane 8-6-2007

Cc: Arch Bevis & Nick Sherry

OVERVIEW OF OUR SELF-MANAGED SUPERANNUATION FUND PROBLEMS

The Superannuation system has been and still is very complicated. It would be fair to say that even the most intelligent individuals struggle with the rules and regulations governing super'.

The new Superannuation changes are good steps in the right direction, and encouraging, as I understand them, i.e.

- 1) No tax on lump sum benefits after age 60.
- 2) No tax on Super' fund earnings, on pension payments derived from superannuation after age 60.

We have what we feel is a serious issue with paperwork and end of year reporting on our self managed super' fund, which is very time consuming, costly and complicated for the individual to follow, i.e. after June 30th balance date:

- A) We compile a list of our current investments and their value on midnight June 30th:

- Cash Management Bank account balance.
- Various term deposit investments (principal sums)
- Value of our share market investments
- Value of our share trading cash management account
- Value of any other investments
- Value of franking credits paid to the A T O from Australian listed companies.
- We wait a further 2 months for final end of year Property Trust statements to come in.

With all the above we know what our Self Managed Super' Fund is worth at years end. All the changes and new investments we have made throughout the previous year are recorded and trails can be followed through the Super' funds Cash Management accounts.

- B) At this point we have to visit our Super' Fund Administrator who looks at our paperwork, takes our figures and enters them into a computer that spits out (after quite a period of time) a 52 page Financial Statement, that includes 9 pages of the Super' Funds tax return.

- The Administrator checks our paperwork and arrives at the same result we provided.
- An Auditor checks the Administrators figures and has also come up with the same result.

- C) We now get the 52 page Financial statement / tax return to check and to sign off on. Most people would follow 3 – 4 of the first few pages and some pages of the tax return. i.e. Super Funds investments and it's value, plus their own end of year balance, etc.

- With this financial statement there is also a request for an audit of the Super Funds main bank account.

All the above comes at a cost, AND, more importantly, the loss of our precious time in retirement.

COSTS INCLUDE

Trustees every day costs. (Not practical to recover these costs from the fund).

Administrator annual fees (quite substantial).

Auditor fees.

Super Fund Bank Account audit fees.

ATO Super Fund tax return fee.

One way to avoid the above merry go round is to have our super allocated pension managed by a large fund. This is O K if you pick the right investment within a fund and get some growth. In my case, a very large funds manager has managed to halve what I had in an account with them seven years ago, so we choose to manage our super fund and our allocated pensions ourselves to fund our retirement and only have ourselves to blame if things go wrong.

IF ONLY WE COULD PROVIDE A LUMP SUM TO THE GOVERNMENT, AND GET A C.P.I. INDEXED PENSION FOR LIFE SIMILAR TO THAT OF POLITICIANS AND THE PUBLIC SERVICE, FREE OF ALL THE RED TAPE WE HAVE TO CONTEND WITH, AND VIRTUALLY FREE OF WORRY AND PAPERWORK.

Or

IF ONLY OUR POLICY MAKERS IN CANBERRA HAD TO MANAGE THEIR OWN SUPER / ALLOCATED PENSIONS AS WE DO, I AM SURE THEY WOULD SEE WHERE I AM COMING FROM AND MAKE COMPLIANCE FAR LESS COMPLICATED.

SUGGESTED SOLUTION TO REDUCE RED TAPE AND COMPLIANCE COSTS

I understand that:

For 60 year olds, from 1-7-2007 there is no longer any tax on an individuals superannuation lump sum, or in pension mode, no tax on the earnings or capital gains of that individuals superannuation fund.

If this is the case then there is no longer a need to report on capital gains and losses within a self managed superannuation fund if all its members are 60 and over.

Reporting could be as simple as: **(simplified)**

Funds net value year 1, say	1,000,000
Allocated pension payment, member 1	(30,000)
Allocated pension payment, member 2	(30,000)
Fund earnings in year 2, say	<u>150,000</u>
Funds net value year 2 (including a franking credit refund to come)	1,090,000

An auditor could check a funds investments from end of year statements and cross reference these to the main Superannuation Funds Bank account, and the previous years balance date investments, and sign off on a simple form stating that the fund was operating legally and was in compliance.

There really is no need for the ATO to get involved, (other than for franking credit refunds and spot audits) **but if Government wants to keep a running record on us** the above example of figures could be used with the addition of individual members contribution balance. The individual members **might** still have to file their individual returns every year to show they are taking their tax-free pension and/or if they have other income to declare outside their allocated pension.

If the above simplified example or something similar could be implemented, then our significant administration costs from the administrator could be cut or made redundant, while the auditor might have to do a bit more at a small additional cost. Overall it would cost us less and save on paperwork, which is the bane of our lives in dealing with government regulations. We would probably in our circumstances save **at least a week** of our lives every year. (a week of our lives lost on senseless compliance is lost forever, it can never be recouped). We would be a lot happier and be under less pressure, lighten the stress load and maybe even live a bit longer. **Don't we deserve that?** To quote the recent Government advertisements.

As current government advertising suggests, we've worked hard for our Super' and we are entitled to a fair go. **Give it to us and free the system up both on your side and ours**, in this way you could even put a few of us back into the productive workforce with the extra time we'd have and cut back on labour shortages. **This is what a smart and productive country would do.**

QUESTIONS

1. Would you please give me a considered response to the above text **and on the subject?**
2. Would the Government consider introducing a CPI indexed pension for life, for a lump sum premium in line with what the public service and government MPs get, to enable us to be free complicated paperwork?
3. Would the Government consider a **very simple** reporting system on self managed Super funds for the over 60s that we your electors can on the whole understand and comply with, something we can largely do ourselves if we want to, **ready if necessary for audit**, something we can understand and **confidently** sign our names to?
4. Do you agree that those 60 years and over should no longer have to consider capital gains / losses, on their ATO Super' tax returns under the new system? (This would automatically cut back on the paperwork the administrators do for you / us, complicated ATO reporting and having to store vast amounts of paperwork).
5. If Government policy is to continue with the current reporting system for those on self managed Superannuation Fund Allocated Pensions for individuals 60 years and older, then could you please explain why under the new tax changes to super', you still need us to report on things like Capital Gains/Losses, etc.? This would still continue to cost the pensioner thousands in compliance costs and take up large amounts of time.

Would you please provide your reply to our local member Arch Bevis, who will forward it on to me.

This letter is written on behalf of myself and several of our friends who like ourselves are bewildered by the time consuming complexity of our retirement system.

Yours Sincerely

Richard Wilson