SUBMISSION TO AUSTRALIA'S FUTURE TAX SYSTEM:

5) THE RETIREMENT INCOME SYSTEM

In 2037 the SG system will come into force in full. Until that time, there are many individuals who retired quite some time ago and who have chosen to be self-funded retirees, running their own investment portfolios. The funds that were used to set up these portfolios were for the most part their own savings from their earnings during their working lives and on which tax was paid at the time.

There is no recognition of this sector of the community by the Australian Government unless those individuals have set up a superannuation fund, but I would like to submit to the review that there should not be any need for such a rigid system, nor for people to be forced to set a superannuation fund up.

My proposal is that it should be sufficient for the individuals to register with the Australian Taxation Office the fact that their income is totally derived from investments and that they are no longer in the workforce. It should be equally simple for those individuals to prove, on presentation of the appropriate paperwork with their tax return when any investments are sold, or mature, and which are then immediately re-invested in income producing investments/fixed deposits/etc. In that case capital gains tax should not be due. In addition, as an incentive to those individuals to remain as self-funded retirees, any investments that are sold, or mature, and are then realised and used as income should be taxed at the lowest rate applicable after the usual allowances, or perhaps even at a new special lower rate, or perhaps not at all.

In view of the current financial situation and with many self-funded retirees finding that they have had to apply for a part or full pension to make ends meet, any incentives to keep them self-funded would be in the Government's interest.

To illustrate my point: I am a widow of [removed for privacy reasons]. My husband was 13 years older than me and retired at [removed for privacy reasons]. He passed away [removed for privacy reasons]. Since his retirement in [removed for privacy reasons] we have been self-funded retirees. We did not set up a superannuation fund (not recommended at the time he retired), just a self-managed retirement portfolio. Technically I am young enough to now return to the workforce, but practically at my age that is unlikely to happen, particularly in the current economic climate. If I wish to change any of the investments in my self-managed portfolio I could potentially be liable for (possibly) large amounts of capital gains tax even though I would be re-investing the funds realised immediately into other investments/term deposits etc. If these tax liabilities are too large for me to cover from my modest, and currently rapidly declining, annual income, then I would be faced with selling more investments (at a loss in the current market) which would in turn reduce my capital base. As a consequence of this my potential income would again be reduced and the end result is that I might be forced to apply for the Unemployment Benefit, as it seems unlikely that I could find work. This seems to be totally counter-productive to me and to the country.

I realise that being in a superannuation fund would solve the particular problems I have outlined, but not everyone has superannuation. There should be an alternative, but equitable system, at least up until 2037, particularly when it would be so simple and easy to administer. Surely I can't be the only person in Australia faced with this situation!

I respectfully ask that the Review Panel takes note of the problems faced by self-funded, self-managed and independent retirees into account when considering the Retirement Income System.

Thank you,
Narelle Meyer