

Australian Friendly



Societies Association

25 May 2006

General Manager  
Superannuation, Retirement and Savings Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

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Dear Sir/Madam

### **Plan to Simplify and Streamline Superannuation**

The Australian Friendly Societies Association (“AFSA”) is the peak industry body representing friendly societies across Australia. On behalf of AFSA, I would like to express our appreciation for the opportunity to comment in respect of the Plan to Simplify and Streamline Superannuation.

With reference to the above plan announced by the Government (with its Budget Statement) on 9 May 2006 – and as set out in the publications released on that day, AFSA wishes to support the Government in implementing measures that will simplify and streamline the taxation and administration rules and procedures which relate to savings by individual Australians.

Friendly societies that operate in our industry have long been participants in the individual savings market, and would strongly encourage the Government to maintain its three pillars retirement income policy – which, at the very outset in the Detailed Paper, is re-stated to include incentives for voluntary private superannuation and other savings.

As an industry, we have a long tradition of offering investment products that support a multi-pronged approach to national savings – particularly for the medium to longer term, and for various life-event situations – such as the education of our children, health and sickness, retirement, aged care and services, and funerals.

Ahead of putting forward any formal submission by 9 August 2006, we would like to point out a potential anomaly that may exist in the proposals – if not already identified and/or otherwise planned to be addressed in detailed provisions of legislation.

### The Anomaly

We believe a potential anomaly arises in relation to the proposal to limit annual undeducted contributions to \$150,000 (on the one hand) and, yet, to apparently permit unlimited fully deductible employer and self-employed contributions (on the other hand).

Although the plan seeks to cap concessional-taxable annual deductible contributions to \$50,000, any excess over that threshold can still be made – albeit with a ‘contributions tax’ upon entry into a fund of a rate which equates to the top marginal tax rate.

While the higher ‘contributions tax’ rate may not be concessional, it may be viewed as merely neutralizing the effect of a deduction benefit for the contributor – who may be (for example) a high-income employee who has fully salary-sacrificed his/her contribution, or a self-employed person who has contributed as an individual or through a distributing trust (rather than via a company).

Of course, if the higher ‘contributions tax’ rate were to be 45% (rather than a Medicare levy inclusive 46.5%), then a 1.5% benefit is obtained in these situations – at the expense of the revenue.

More importantly, an opportunity to make a deductible contribution (when offset by a higher ‘contributions tax’ rate) is believed to provide an easy circumvention of the \$150,000 limit for undeducted contributions – to gain entry into the concessional 15%-taxed superannuation fund environment, and also the even more attractive zero-taxed pension/annuity fund environment.

Mindful of its potentially significant revenue consequences, this would seem to be an unintended outcome of the Government’s proposals – especially given the stated position (on page 30 of the Detailed Paper) that the purpose of the \$150,000 limit is “to ensure the concessions are targeted appropriately”.

Needless to say, any situation that provided 15% or zero tax on fund income as well as end benefits and where fund entry tax is offset (or sheltered) by a contribution deduction benefit will create an undue bias to one form of savings objective – at the expense of other forms of savings objectives.

Any such outcome would not seem to be consistent with the Government’s three pillars policy of supporting wider voluntary savings, would have obvious serious revenue consequences, would particularly benefit the tax position of high income individuals and may (in our view) expose the Government’s plan to its one inherent risk – that of potentially encouraging the ‘double dip’ of withdrawing from superannuation after age 60, and either spending and claiming the age pension or simply transferring funds offshore to a low-tax regime.

### Suggested Solutions

Again, if not already considered and/or otherwise planned to be addressed in detailed provisions of legislation, the following are two suggestions – among any others that merit Government attention:

1. As with the proposal relating to the limit of \$150,000 for undeducted contributions, place a limit of \$50,000 for deductible contributions – and ask the Australian Taxation Office to monitor all contributions made for a person during a year (including, if coming from different employer and/or other sources), and direct any excess amounts to be returned – with income earned during the interim period being subject to the highest marginal tax rate (as a disincentive).

Maintaining a single fund contribution tax rate of 15% (rather than creating a dual rate situation) would also simplify fund administration and systems recording – and would also help maintain some of the procedural benefits achieved from the recent abolition of the superannuation surcharge (at contribution entry stage).

2. Alternatively, identify and treat excess contributions as belonging to a ‘non-complying’ part of the superannuation fund – where the both the entry tax rate and fund earning tax rate are equal to the highest marginal rate (perhaps inclusive of the Medicare levy).

A non-complying superannuation benefit should be prevented from being commutable to a pension or annuity that enjoys zero tax.

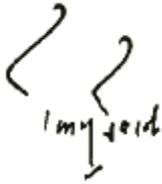
If we had a preference, the 1<sup>st</sup> suggestion above would seem to have the benefit of greater simplicity for fund administrators – and would also maintain consistency with the proposed treatment for capping undeducted contributions.

Needless to say, it would run counter to the objectives of the plan to simplify and streamline superannuation if significant new layers of administrative rules and systems changes were to be introduced. Ultimately, consequential costs will be passed on to investors and will serve to diminish savings.

For purposes of any phone contact or correspondence on this subject, please do not hesitate to contact the undersigned – who may be directly reached on 0411 258 332 or [tjacob@bigpond.net.au](mailto:tjacob@bigpond.net.au).

We shall also be pleased to participate in any discussions with your office, and to assist in contributing to a fair and equitable outcome for all individual Australians who save for various life-event situations.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Jacob', with a stylized flourish above the name.

**Tony Jacob**  
**Chairman**  
**AFSA Tax Committee**

cc Jane Southwell  
Executive Director  
AFSA