From: Peter Thornton [peterthornton@grapevine.net.au]
Posted At: Monday, 22 May 2006 7:45 PM
Conversation: Submission and Comments for Simpler Super
Posted To: Submissions to Web

Subject: Submission and Comments for Simpler Super
Dear Treasury,

I would like to offer the following public comments with respect to the new Super initiatives announced in the 2005/2006 Budget and as referenced in the *'Detailed Outline'* document found on Treasury's web site.

Yours faithfully

Peter Thornton
39 Gaunson Cres
Wanniassa ACT 2903
Ph: 02 6296 7003

Untaxed Superannuation Funds (Public Sector Superannuation)

In Sections 1.4 and 8.1 of The *'Detailed Outline'* (page 5 and pages 45-46 respectively), there is the suggestion that the Government's new plan must maintain and apply *'equity'* across the whole of the superannuation system. It further states that so called *'untaxed'* Public Sector Super Funds and their contributors do not pay superannuation tax. Whilst this may appear to have some substance on the surface, it must be stated that most Public Sector Funds actually provide offsets and subsidise Government revenue liabilities through their earnings, which I believe is akin to the paying of Superannuation taxes. To explain: the common design of Public Sector Superannuation Schemes aims to reduce and diminish (potentially to zero) the Government's liability to fund "notional" Superannuation Guaranteed Contributions (SGC) / productivity by continually applying the earning rate of the fund as an offset to the liability over time. This very fact would conceivably provide Government (as provisioned through the fund) with greatly reduced consolidated revenue liabilities into the future (akin to tax in reverse if you like).

Furthermore, contributors of Public Sector Super Schemes are required to pay compulsory after tax contributions at normal marginal rates of taxation together with historically applicable Superannuation Surcharges without tax concessions or deductions (i.e. because Government is considered to be providing a "notional" SGC). It is this very fact of a "notional" contribution that helps to dispel the myth that Public Sector Superannuation Funds are not equitable with respect to normal superannuation funds. It is therefore concluded that Public Sector Superannuation Schemes do in fact pay virtual superannuation taxes by reducing Government's liabilities through the offsets made by their earnings and also by not allowing tax deductions on contributions. This proves categorically that their very design makes them more than equitable and equal to the tax revenues received from what would be considered normally taxed superannuation schemes.

With the foregoing in mind, it is recommended that Government seriously consider revising and extending the tax free provisions offered to general superannuant's aged 60 years and over to those recipients who are and will be eligible to derive benefits from Public Sector Superannuation Schemes otherwise it stands to reason that the outcome will be unequitable to this superannuation sector.

Invalidity Provisions

On review of the *'Detailed Outline'*, it was disappointing to see that little change has occurred with respect to the ETP and superannuation provisions of those who have suffered permanent invalidity (PI). Unfortunately, most people who fall into the total invalidity category suffer not only the consequences of the physical or mental disability, but also the consequence of a significantly reduced capacity to fund and sustain a relatively modest lifestyle in their forced retirement (in some cases incomes can be reduced to less than 20% of pre-disability salaries). In most cases, PIs are by definition "totally retired", and as such, it is recommended that Government seriously consider changes to the plan to re-classify and make provisions for PIs (regardless of age) that are consistent with the new tax free provisions for superannuants that are over 60 years of age. This would provide extra support to an element of society that is in dire need of true compassion and would be in keeping with *'the policy objective to assist and encourage people to achieve a high standard of living in retirement.' (Pg 1 refers).*