



Throttling Superannuation

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On 3 May 2016, in his first budget as Treasurer, Scott Morrison took the nation by surprise when he announced significant changes to the taxation and regulatory treatment of superannuation.

Now both the Coalition and the Labor Party are treating superannuation as just another pot of money to dip into for government revenue, undermining the integrity and viability of the retirement income system.

Policymakers have been at pains to emphasise terms such as 'fairness' to explain their proposed superannuation changes. But two numbers explain what the superannuation debate is really about.

The first number is \$502 billion. According to its own budget papers, in 2019-20-less than three years from now-Australian Government spending (not including states and territories) will reach half a trillion dollars per year. In comparison, government spending in the last year of the Howard Government (2007-08) was \$271 billion.



The second number is \$500 billion. Sometime after 30 June 2017, Australian Government gross debt is expected to pass \$500 billion for the first time. Gross debt on 30 June 2007 was only \$53.2 billion.

Contrary to claims about equity, fairness and the need to tackle so-called 'tax concessions', it is out-of control government spending that is driving these superannuation changes and ongoing efforts to increase the government's tax take.

THE BIPARTISAN ATTACK ON SUPERANNUATION

In April 2015, the ALP announced its new 'Fairer Super' policy, in which it promised to levy a new 15 per cent tax on superannuation pension earnings of over \$75,000 per year, and also reduce the income threshold for the 30 per cent contributions tax, introduced by the Gillard Government in 2012, from \$300,000 per year to \$250,000.

Unsurprisingly, its policy was couched in the context of needing to limit so-called superannuation 'tax concessions' claimed by higher income earners, with no acknowledgement that the top three per cent of income earners actually pay 27 per cent of all net income tax or that the top nine per cent of income earners pay 47 per cent.

In response, then Prime Minister Tony Abbott said: 'Unlike Labor, we have no plans to increase taxes on superannuation and will honour our commitment not to make any adverse or unexpected changes to superannuation during this term.'

Seven months later, Scott Morrison also observed at the Association of Superannuation Funds of Australia Conference that 'above all else, however, we must remember superannuation belongs to those who have earned it over their working life. It is not my money, nor the Government's money. It is your money'. Nevertheless, on Budget night, the government announced a raft of changes including a limit of \$1.6 million on the value of assets that could be transferred into superannuation pension accounts, the imposition of a new \$500,000 lifetime cap on post-tax contributions backdated to 2007 and a reduction of the annual cap on pretax superannuation contributions to \$25,000 per year.

On 15 September, after fierce community opposition, the government announced that it would replace the proposed \$500,000 lifetime cap on post-tax contributions with an annual \$100,000 limit.

Morrison also issued a statement on budget night saying that the government would establish a new objective that the role of the superannuation system was merely to 'provide income in retirement to substitute or supplement the age pension'.

A CONTEST OF DEFINITIONS

The primary objective of the superannuation system should be to ensure that as many Australians as possible take personal responsibility to save for their own retirement and reduce dependence



on the age pension. Private funds put aside for retirement represent deferred consumption, so flat and low superannuation taxes on contributions and earnings for everyone is actually good public policy.

However it is increasingly clear in this debate that the actions of policy makers too often do not match the rhetoric.

In his budget speech, after noting that 'becoming financially independent in retirement, free of welfare support, is one of life's great challenges and achievements', Morrison then went on to detail the Government's changes to reduce 'access to generous superannuation tax concessions'.

He also justified the new transfer balance cap by claiming that 'a balance of \$1.6 million can support an income stream in retirement around four times the level of the single age pension'. Both of these concepts are flawed.

Every January, Treasury publishes a 'Tax Expenditures Statement', an Orwellian term for a document that tallies up all of the extra money it believes it should be getting by way of higher taxes or abolishing rebates or deductions, allowing it and other big government advocates to promote the concept of 'tax concessions'.

So for instance, Treasury costs the exemption of the sale of a family home from capital gains tax and fresh food from the GST as \$25 billion and \$7 billion annual 'concessions'.

It is in this context that Treasury's characterisation of the 15 per cent tax rate on employer superannuation contributions and superannuation fund earnings as \$16.2 billion and \$13.5 billion 'concessions' gains currency in the public domain.

A tax that is not as high as Treasury would like it to be, or that doesn't exist in the first place, is not a concession-it is a low or nonexistent tax whose absence probably serves another purpose.

Similarly, the Treasurer's justification that a \$1.6 million superannuation account balance is acceptable because it will earn an individual four times the Age Pension in interest is wrong in scope and practice.

It is almost a carbon copy of Labor's own proposal, and uses the age pension as a retirement income reference point, rather than a fallback welfare payment.

The reference to a \$1.6 million superannuation balance delivering annual income equal to four times the age pension implies that it would pay \$80,000 per year or deliver an investment return of five per cent. That is completely unrealistic in an environment where the ten-year Australian Government bond yields are currently hovering around two per cent.

The chair of the Rudd Government's superannuation review, Jeremy Cooper, also pointed out in early 2015 that the age pension of \$1297 a fortnight (including supplements) for a couple would cost \$1,022,000 to buy, if it were a product that could be purchased.



The age pension is an inappropriate benchmark of adequate retirement income. A social safety net should not be held out as an ideal goal for individuals in a private market.

THE TREND IS NOT OUR FRIEND

It is difficult to believe that it was only four years ago that all superannuation contributions and earnings, regardless of a person's income, were taxed at a flat 15 per cent with earnings in retirement tax free.

It was accepted conventional wisdom that while this flat tax was levied on our super contributions and earnings, once we reached retirement age the hand of government would be removed from our pockets forever with people finally allowed to enjoy the fruits of their life's work tax free. But how quickly things have changed.

The precedent of the doubling of the contributions tax from 15 per cent to 30 per cent by the Gillard Government in 2012 for people earning over \$300,000 per year was used by Labor last year to promise to further reduce this threshold to \$250,000.

In April, the Turnbull government publicly floated bringing this threshold down to \$180,000, but in the Budget confirmed that support for the \$250,000 threshold is now bipartisan. Unsurprisingly, in late August 2016 the Labor opposition announced it now supported bringing this threshold down to \$200,000.

The more taxpayers that can be captured by the 30 per cent rate the better for government revenue. How long before the \$180,000 threshold is tested again and why stop there, given that the Private Health Insurance Rebate, for example, cuts out at \$140,000 or Family Tax Benefit Part B cuts out at \$100,000?

The amount of extra money you can add to your superannuation account is also under siege, with allowable pre-tax amounts cut from \$30,000 and \$35,000 per year to \$25,000 per year and the post-tax limit of \$180,000 per year to be cut to \$100,000.

The proposed new 'substitute and supplement' objective has already led one prominent body to declare that so-called 'tax breaks should only be available when they serve this policy aim'.

Most worrying is that for the first time, both major parties now see income in retirement as fair game, with Labor and the government intending to tax income from assets worth over \$1.5 million and \$1.6 million respectively at 15 per cent.

It is hard to know which is more concerning—the justification of private retirement incomes with reference to the age pension, the optimistic presumption of five per cent investment income returns, or the new revelation that both the government and opposition are now in the business of telling people how much income they should enjoy in retirement.

It is clear that as governments continue to struggle to find the money to pay for their own



promises, superannuation tax rates will continue to go up and the applicable thresholds will continue to come down.

A POOL OF MONEY JUST WAITING TO BE TAXED

Both major parties now consider Australia's \$2 trillion superannuation pool primarily as a source of additional taxation revenue as well as another means of pursuing redistributive social policy.

Given that the 2014 National Commission of Audit found that 80 per cent of Australian retirees were on the full or part age pension, and that this overall figure will remain unchanged over the next three decades, it is alarming that Labor and the Coalition appear to be on a unity ticket to implement policies to discourage savings, making this situation worse.

These changes will condemn more middle-income Australians to the age pension in coming decades.

Rather than supplementing or substituting the pension, the objective of the superannuation system should be to encourage independence and allow people in retirement to achieve an income of 70-80 per cent of their pre-retirement incomes, a widely accepted benchmark throughout the developed world.

The question shouldn't be how the superannuation system can better support government spending, or more stringently punish those who seek to take care of themselves.

It should be about how our society can encourage more people to take responsibility for their own lives, maximise every Australian's retirement income and reduce the cost of welfare.

While the Government's September announcement that it wouldn't proceed with its \$500,000 lifetime post-tax contributions cap was welcome, limits on what can be transferred into a retirement account remain, as do the tax increases and the proposed objective that superannuation exists only to 'substitute or supplement the Age Pension'.

How do middle-income individuals, with university, child rearing and mortgage costs, also save enough money to fund their own retirement? How do these changes help a woman who has spent years out of the workforce but in the second half of her career is finally earning a higher income, yet now faces limits on what she can transfer into her superannuation account, and a 30 per cent tax on her contributions?

Every government tax increase – whether on contributions, earnings or income-limits money transferred into superannuation accounts, takes money out of the system, reduces retirement balances and sends a message to everyone that their investments may be safer elsewhere.

Taking an extra dollar out of one person's account in tax does not mean an equivalent dollar is added to someone else's savings. It just goes into the Government's pocket.

This bipartisan approach to superannuation policy will permanently damage trust and confidence



in the superannuation system.

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