REVENUE REVIEW

Advocating

Common Sense

Taxation Reform

AFTS Secretariat
The Treasury
Langton Crescent
PARKES *ACT 2600*

27 February 2009

Submission to AFTS Retirement Income Review

Dear Sir.

I am [removed for privacy reasons]-year-old Baby Boomer. I entered the workforce in January [removed for privacy reasons] as a white-collar worker in the Adelaide CBD where my weekly

salary was £10-10-00 ($21.00).

My employer provided a staff provident fund, which required a contribution of 5% of my salary, which they matched with a further 5%, making a total provision of 10% of salary.

It defies logic that neither side of politics has universally adopted a system, such that Banking, Trustee, Insurance and Pastoral company workers enjoyed over forty-years ago.

The current system of compulsory superannuation was adopted by the Hawke-Keating Government and was initially based on a 3% contribution, before increasing to the present rate of 9% in 2002.

At the time, many industry groups vented their anger about the new system, arguing that it would constitute a major cost to industry.

However, I disagree with this assertion. I am firmly of the belief that the cost of Superannuation, whilst being paid by the employer, effectively falls on the employee. For example, somebody on a $100,000 package would be paid $91,000 after provision for superannuation. This applies equally to all workers, even to lower income earners as their awards are set on the capacity of industry to pay.

I have given much thought to the often repeated proposal to increase the compulsory contribution for superannuants to 12% or even 15%, as is suggested by a small-number of advocates.

Due to my above stated belief that the employee bears the real cost of the 9% compulsory Superannuation contribution, it is my belief that a significant increase (beyond 10%) in Superannuation could result in an unacceptable reduction in real take-home salary.

It stands to reason that a 9% contribution, un-taxed, would be equivalent to a taxed contribution of 13.8%. The removal of the tax on contributions would significantly increase the accumulation of every superannuant's account. If the compulsory contribution were raised to 10% it would be equivalent to a 15.38% contribution taxed under current arrangements.

At the moment there are two taxes upon superannuation - a 15% contribution tax and a 15% tax on fund earnings. The combined effect of these taxes reduces a superannuant's accumulation by 35% over a 35-year working life. These taxes virtually negate the tax benefit gained on contributions. *Table A and D shows this comparison.*

It is my proposal that there should be no taxation on Superannuation accounts, until the account's earnings are equal to 2.5 times AWOTE. Thereafter the earnings would be taxed ordinarily on the amount they exceed 2.5 times AWOTE. Obviously, many high-income earners would reach this point well before retirement. In which case, I propose, that the member be allowed to take salary in-lieu of Superannuation.

You would be aware that the Government currently raises around $9.2 billion in taxes on Superannuation. *(2008-09 MYFEOj*

Much of this $9.2 billion is raised at a concessional 15% rate on Superannuants who would otherwise have to pay a higher marginal rate, had the funds not been in their Superannuation fund. Therefore, any loss of revenue from my proposals would be more than compensated for by the revenues gained at normal rates outside of superannuation.

While the top 15-20% of the workforce may not be singularly dependant on their superannuation during retirement, lower income earners will often be entirely or partly dependent upon Government assistance for their retirement.

In my recent submission to the AFTS tax review, I have advocated the introduction of a uniform rate of personal and corporate tax for all Australians. I have also advocated strongly that any social security benefit be withdrawn by only 40c (tax and withdrawal) in each dollar earned by the taxpayer. Some of my assertions in this submission are based on these premises.

In the transition to a new system it is important that accounts held under current arrangements are kept separate from monies invested under a new system. This will avoid the future necessity for exhaustive and complicated actuarial calculations.

As I have pointed out the front-end taxes on superannuation severely inhibit the growth of all superannuation accounts. I propose that under a new system, which is accumulated free of tax, that earnings be taxed as income once the superannuant reaches retirement age. However, I also propose that members should be able to withdraw up to 50% of their fund, but no more than 10% per in anyone year, provided they can demonstrate that the residue in the fund can produce 2.5 times the married pension. These withdrawals, which are deemed to be capital, should not be taxed. It is important that a future system prevents people from using superannuation as a tax shelter and for bankruptcy protection.

Do not hesitate to get in contact with me further to discuss my proposal in greater detail. More information can be found at www.revenuereview.com.au.

Best Regards,

Richard Hackett-Jones
Revenue Review

9,000 Contribution (1.5% growth)
8.2% Earnings
11 7% on net after tax contribution

A

VR	CONTRIB	TOTALS	EARNINGS
1	9 000	9,000	9738
5	9 552	46370	58966
10	10 291	96,324	150 968
15	11 086	150,139	292 315
20	11 943	208 113	507 219
25	12 866	270,567	831 616
30	13,860	337 848	1 318,829
35	14 931	410 329	2047 969

Optimum: No Taxation

This represents 13.65 years of salary at retirement.

9,000 Contribution (1.5% growth)
7% Earnings
10% on net after tax contribution

B

VR	CONTRIB	TOTALS	EARNINGS
1	9 000	9,000	9630
5	9 552	46,370	56951
10	10 291	96,324	141 230
15	11 086	150,139	264 177
20	11 943	208,113	441,725
25	12 866	270,567	696 247
30	13,860	337,848	1 059,156
35	14 931	410,329	1 574 540

77% of Optimum

This represents 10.50 years of salary at retirement.

7,650 Contribution (1.5% growth)
8.2% Earnings
11 7% on net after tax contribution

C

VR	CONTRIB	TOTALS	EARNINGS
1	7 650	7,650	8 277
5	8,119	39415	50,121
10	8747	81,876	128 323
15	9423	127 618	248,468
20	10 151	176,896	431 136
25	10,936	229,982	706,873
30	11 781	287,171	1 121,004
35	12 691	348 779	1 740 774

85% of Optimum

This represents 11.61 years of salary at retirement.

7,650 Contribution (1.5% growth)
7% Earnings
10% on net after tax contribution

D

VR	CONTRIB	TOTALS	EARNINGS
1	7650	7,650	8 186
5	8,119	39415	48,409
10	8747	81 876	120 046
15	9423	127 618	224,551
20	10 151	176 896	375466
25	10,936	229 982	591,810
30	11 781	287 171	900 282
35	12,691	348 779	1 338,359

ONLY 65% of Optimum

This represents 8.92 years of salary at retirement.

These two tiers of taxation reduce the accumulation of a superannuant's account by 35%.

Therefore, a worker needing $500,000 to retire,
will only have $325,000 in their Superannuation account.