COMBINED PENSIONERS & SUPERANNUANTS ASSOCIATION

Submission to:

The Australian Government

Treasury Tax Discussion Paper

Re: Think
Better tax system, better Australia

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CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 120 branches and affiliated organisations with a combined membership of over 32,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.

CPSA welcomes the opportunity to provide comment on *Re: Think*.

Tax and transfer system

CPSA supports a progressive income tax system with a tax free threshold which cuts out at the level where income can be deemed to become discretionary and where income brackets are regularly indexed to prevent bracket creep increases in the real value of income tax levied. The safety-net nature of Australia's income support and supplementary payments system would ensure that the Age and Disability Support Pensions would continue to be effectively tax-exempt, while the benefits of the tax offsets currently available to older Australians would be likely to effectively continue under a high tax-free threshold. It is noted that income tax system reform as described in *Re: Think* would deliver no additional benefits to CPSA's constituency. The rationale for CPSA's position is that a principled approach to income taxation by Government maximises system efficiency and effectiveness through transparency.

CPSA supports maintaining the current system of pension indexation with its three measures, the CPI, the PBCLI and MTAWE. The pension-type payments have a safety net function, which means that emphasis needs to be placed on the full rate pension payment needing to be adequate as a person's sole income. The pension system may have developed as income support for people with significant private income or assets as well, and a pension or a part pension may be viewed by many as an entitlement. However, the pension was primarily designed as a payment to prevent people from falling into poverty. When the cost of income support systems such as the pension and superannuation become an issue, the logical approach is to reduce payments to those with significant private income, as proposed in the 2015 Federal Budget. Very clearly, the approach should not be to change the indexation mechanism so as to deliver lower levels of income support to all, including those on full rate payments.

Finally, CPSA is of the view that the Work Bonus scheme could be more effective if employment income earned by Age Pensioners could be annualised and applied in equal fortnightly amounts as part of the pension income test. Anecdotal evidence suggests that the work contracted into by pensioners is usually seasonal in nature, including retired teachers marking exam papers and retired accountants completing tax returns. The aim in taking on this work is generally to generate some additional income to be spent gradually. However, the way income testing is carried out currently means that Work Bonus beneficiaries frequently receive no pension payment while they are engaged in their temporary employment. If pensioners were able to spread their employment over the year, more are likely to take it up, making the Work Bonus scheme even more successful than it is now.

Superannuation

It is clear that the design of the Australian superannuation system is in need of reform based on economic and social equity grounds. The cost in terms of forfeited tax revenue is now roughly on par with the cost of the Age Pension system, which the Australian Government has labelled as financially unsustainable. It follows that the superannuation system must be overhauled as well to reduce its cost to the taxpayer.

There are two features of the current superannuation system which are plainly inequitable at a social level. Their reform can deliver the cost savings which will make superannuation sustainable.

First, the superannuation system levies a single rate of income tax and no tax-free threshold. This means that there are people on low incomes whose marginal rate of income tax outside of super is the same as the rate of income tax they pay on their superannuation contributions. Many pay a higher percentage overall in income tax on their super contributions than they do on their employment income.

On the other hand, people on high incomes who are on higher or the highest marginal tax rate for their employment income receive a significant tax benefit as a result of the single rate of income tax applied to compulsory and salary-sacrificed super contributions alike.

Second, there are no limits to assets held in superannuation member accounts. This means that the very wealthy can obtain significant income- and capital gains tax benefits through superannuation, while the taxpayer subsidises luxury in retirement.

The lack of a limit on the value of assets held in superannuation accounts is also inconsistent with the annual limits to concessional and non-concessional contributions to superannuation. While these annual contribution limits were perhaps envisaged as sufficient to prevent extremely high superannuation account balances, they have largely been ineffective.

It is also unclear why no upper limit has been set for account balances. Clearly, to achieve its public policy purpose, the superannuation system need only provide tax incentives to the point where the balance of a member account renders the account holder ineligible for the Age Pension. The savings capable of being achieved by setting such a limit would easily fund an increase to the full rate of the Age Pension and ensure that Age and other types of Pensioners would have retirements funded at a safe level above the poverty line.

CPSA supports reform of the type proposed by the 2009 Henry Tax Review in its recommendations 18 and 19, which suggested that the tax on superannuation

contributions in the fund should be abolished and that employer superannuation contributions should be treated as income in the hands of the individual, taxed at marginal personal income tax rates and receive a flat-rate refundable tax offset.

CPSA supports a periodically indexed upper account balance limit for superannuation accounts in preference over a system of annual contribution caps. The upper account balance limit should be set with reference to single Age Pension eligibility. This would mean that the account holder can accumulate wealth in their superannuation account to the point where they can reasonably be expected to not become eligible for the Age Pension during their retirement.

CPSA also supports the taxation of superannuation fund earnings at a preferential rate up to the point where the upper account balance limit has been reached.

In relation to people over the Age Pension qualification age who are still working, CPSA supports the introduction of a floating maximum age for concessional and non-concessional contributions. This maximum age can be set with reference to actuarially established life expectancies to ensure that wealth accumulated in superannuation accounts is primarily used for the purpose of retirement funding, not estate planning.

GST and indirect taxes

CPSA opposed the introduction of the GST in 2000 on the basis of its regressive nature. While pensioners were compensated for the price increases due to the GST through a fortnightly supplement, many pensioners remain sceptical that they have indeed been fully compensated. What is certainly true is that the GST Supplement, which was merged into a single Pension Supplement in 2009, is indexed according to CPI increases, even when these increases are lower than increases in the PBCLI or MTAWE.

In general, the rationale for indexing the GST component of the Pension Supplement differently from the Pension itself is doubtful. The GST applies to goods and services which become part of the range of virtually indispensable new goods and services as the nation’s prosperity and collective wealth increases.

There is therefore a compelling case for isolating the GST component of the Pension Supplement and indexing it on the same basis as the pension itself, certainly if the GST were to be expanded to cover goods and services currently exempt or if the rate of GST were to be increased.

Not-for-profit sector

It is important to note that the not-for-profit sector in Australia includes a variety of entities. While they all have in common that they have a charitable purpose, some – particularly large faith-based service providers – operate like businesses to the extent that their operations compete with those of commercial operators. Such not-for-profit operators often achieve large financial surpluses and staff remuneration packages are competitive with those offered by commercial operators.

While CPSA has no views on whether or not such large and often very profitable not-for-profit organisations should be afforded preferential treatment over their commercial peers, CPSA would like to point out that specific NFP tax arrangements are vital for the continued existence and operations of community-based charities, including providers of individual and systemic advocacy.

Also, the ability of financial donors to such community-based charities to show their donations as deductions in their tax return is an important component of the financial viability of community-based charities.

Any proposal which reduces the tax benefits to community-based charities, directly or indirectly, would be of the greatest legitimate concern to community-based charities.