
CHAPTER 10. : RECOMMENDATIONS

A. Social Security Matters

Social Security Legislation Amendment Bill (No 3) 1992 Divisions 16-19 (inclusive)

The Committee by majority recommends that the Social Security Legislation Amendment Bill (No 3) 1992 Divisions 16-19 (inclusive) be agreed to without amendment.

The Committee's On-going Inquiry

The Committee recommends the following in relation to its on-going inquiry into superannuation:

Recommendation 3.1

The Committee recommends that, as a matter of urgency, the Commonwealth should initiate discussions with the States with a view to facilitating portability between them and that these objectives be achieved by the end of 1993.

Recommendation 3.2

The Committee recommends that the Government take steps to provide for the mandatory vesting, as from a date to be determined, of a significant part of the employer-financed benefits in occupational superannuation funds accrued to that date but not otherwise vested. An example of a possible scheme is:

- (i) The amount to be vested shall be not less than each member's contributions, plus fund earnings, to that date.
- (ii) The amount should be vested over a ten year period.
- (iii) Where existing rules would, if applied, result in a greater sum being vested in any member, those rules should apply.

Recommendation 3.3:

The Committee recommends that, in relation to Recommendation 3.2 regarding increased vesting requirements, the base date should be the date on which the Government announces the adoption of the policy in order to protect the

interests of then-existing members. Employees retrenched or dismissed after the announcement, but before the base date, should be entitled to whatever vesting they would have been entitled to if the base date had been the date of their termination.

Recommendation 3.4:

The Committee recommends that immediate vesting of all employer contributions subsequent to the vesting base date be compulsory.

Recommendation 3.5

The Committee recommends that the commencement date of the new rules to substantially increase the amount of benefits to be compulsorily preserved, as announced in *Security in Retirement*, should be reconsidered by the Government with a view to earlier commencement.

Recommendation 3.6:

The Committee recommends by majority that the preservation age be raised to 60 years in accordance with the phasing in proposals outlined in *Security in Retirement*.

Recommendation 3.7

The Committee further recommends that the Government should, as a matter of urgency, initiate research into all aspects of appropriate retirement ages and the extent of double dipping in Australia.

Recommendation 3.8:

The Committee recommends that the ISC, the organisation which it believes is best placed to administer this policy, work towards the achievement of the Committee's long term goal to eliminate early access to retirement benefits. The Committee also recommends that the ISC promulgate a policy to ensure consistency of treatment of applications and further recommends that the ISC develop a more limited set of rules setting out clearly the circumstances for hardship assistance.

Recommendation 4.1:

The Committee recommends that the Government investigate the possible expansion of long term debt instruments with a view to affording annuity providers greater opportunities to provide lower-cost indexed products.

Recommendation 4.2

The Committee recommends that the Government proceed with its announced intention to rebate all income tax otherwise payable by age pensioners.

Recommendation 4.3

The Committee recommends the assets test be aligned with the income test via the application of realistic, market-related interest equivalents, subject to:

- (a) a reasonable allowance, for example \$50 000, for personal and household possessions; and
- (b) inclusion of actual income on bona fide income-earning assets.

Recommendation 4.4

The Committee recommends that the Treasurer and the Minister for Social Security form a working party to examine income tax and social security legislation with a view to maximising the consistency of definitions and treatment of matters of common concern to the two systems and that the report be tabled in Parliament by the end of 1993.

B. Taxation Matters

Taxation Laws Amendment (Superannuation) Bill 1992

- (i) The Committee by majority recommends that the Taxation Laws Amendment (Superannuation) Bill 1992 and the amendments moved by the Government in relation to it be agreed to without amendment.

The Committee's On-going Inquiry

- (ii) The Committee recommends the following in relation to its on-going inquiry into superannuation:

Recommendation 5.1:

The Committee recommends that a specialist unit, known in the Australian Taxation Office as a 'cell', be established within the ATO to clarify taxation law and practice for the superannuation industry.

Recommendation 6.1:

The Committee recommends that the Government monitor and examine the use of salary sacrifice arrangements with a view to ensuring that their use does not undermine the equity aims of the Government's retirement incomes policy.

Recommendation 7.1:

The Committee by majority believes that the contributions tax should be retained for 'deductible' contributions and the exemption for 'rebatable' contributions should also be maintained.

Recommendation 7.2:

The Committee believes that the contributions tax, with respect to employer contributions, should be withheld by the employer instead of the fund trustee. This would substantially reduce the administrative complexity of the current arrangements and lead to less loss of benefits through inadvertence. In other words, employer and self-employed contributions (which have been subject to the 15 per cent tax) should be excluded from the assessable income of the fund.

Recommendation 7.3:

The Committee by majority recommends that the fund earning tax should be maintained at its current concessional rate and that it should retain its concessional character by being reduced in line with other reductions in personal income tax rates.

Recommendation 7.4:

The Committee recommends that the Commissioner of Taxation should clarify, by way of Taxation Rulings and Determinations, the allowable deductions available to superannuation fund trustees. Further, where appropriate, the position of superannuation funds should be aligned with normal businesses.

Recommendation 7.5:

The Committee recommends that any expenses incurred by trustees in complying with legislative and regulatory changes, some of which will flow from its series of reports, be completely tax deductible for fund trustees.

Recommendation 7.6:

The Committee recommends that the Treasury consider whether there is scope to correct any anomalies that may exist in the application of Capital Gains Tax (CGT) to fund trustees. The Treasury should specifically consider the application of CGT to units in unit trusts, the application of CGT to pre-September 1985 assets and the application of CGT in fund amalgamations.

Recommendation 7.7:

The Committee recommends that the Treasury examine the arrangements applying to current pension liabilities to find a less complex regime. Regard should also be had to the complexity of the taxpayer rebates.

Recommendation 7.8:

The Committee recommends that the Treasury examine whether there is scope to overcome the confusion surrounding the transfer of tax liability provisions.

Recommendation 7.9:

The Committee recommends that the Government review section 290A to determine whether there are impediments to ADFs claiming the exemption, and, if so, to remove such impediments to ensure that the exemption is enjoyed by those who are entitled to it.