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House of Representatives Standing Committee on Tax and Revenue
Parliament House
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Email: taxrev.reps@aph.gov.au

23 July 2015

Subject: Inquiry into Tax Expenditures Statement

Dear Sir

Mercer welcomes the opportunity to make a submission into the Inquiry by the Standing Committee into the Tax Expenditure Statement (TES), produced by Treasury on an annual basis.

Introduction

Mercer is a global consulting leader in talent, health, retirement and investments. Mercer provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have $55 billion in funds under administration locally and provide services to over 1.3 million super members and 15,000 private clients. Our own master trust in Australia, the Mercer Super Trust, has over 240 participating employers, 226,000 members and more than $20 billion in assets under management.

In view of our strong involvement in the superannuation industry, we will restrict our comments to the superannuation items within the TES.

We also note that the Committee will not examine the policy arguments around the individual tax expenditures. We understand and respect that position. In light of your approach, our comments will concentrate on the value of the TES and its contribution to community debate in respect of Australia's retirement income system.

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Superannuation

The 2014 Tax Expenditures Statement lists 297 tax expenditures with the five largest items (as shown in Table 1.1) listed below:

Item #	Item	Revenue forgone $M	Revenue gain $M
E6	Capital gains tax main residence exemption — discount component	25,500	n/a
E5	Capital gains tax main residence exemption	20,500	n/a
C3	Concessional taxation of employer superannuation contributions	16,300	15,550
C6	Concessional taxation of superannuation entity earnings	13,400	11,750
H28	GST - Food	6,400	6,300

In view of the significant numbers relating to these two superannuation items, it is not surprising that over the years the value of the superannuation tax concessions has generated considerable community debate.

A policy debate about the value and targetting of superannuation is needed and should be welcomed, particularly in the context of an ageing population and budget shortfalls.

However these annual estimates of the value of superannuation tax concessions mislead the debate and have the potential to cause considerable harm to the development of a sustainable retirement income system in Australia.

Let me explain.

The super tax expenditures estimates shown in the TES are determined on an annual basis relating to concessional contributions and investment income (earned by super funds) in that financial year. However superannuation is about the long term. In essence, it permits and encourages working Australians to spread the consumption of their earned income from just their working years to their whole lifetime, including their retirement years. The outcome is that retired

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Australians in the future will have more retirement income (and therefore higher living standards) and rely less on the Government funded age pension.

In brief, the taxation support for superannuation is an investment for the future. It should not be seen to be restricted to the revenue forgone in a particular year. Like all long term investments, there is an immediate cost for a future benefit that, in this case, is many years into the future.

In that respect superannuation is very different from many other tax expenditure items. For example, four of the top ten items in Table 1.1 in the TES relate to GST exemptions. In these cases, the revenue forgone in a particular year can be reliably estimated as there will be limited change in the behaviour of Australians in respect of say, their food or health purchases. Furthermore, there will be no saving from Government expenditure in future years.

In contrast, superannuation benefits will generate considerable savings from future government expenditure relating to the means-tested age pension. These are totally ignored in the TES.

Furthermore, any changes to the taxation of superannuation are likely to change behaviour of many Australians in respect of their voluntary superannuation contributions. This behaviour change is excluded from the Revenue forgone figures in the TES. For example, many voluntary contributions are likely to be redirected to other tax advantaged options if the super tax concessions were reduced.

Finally, many commentators and lobby groups add the superannuation concessions together to obtain a total value of these concessions. This is a flawed approach for the simple reason that if contributions were taxed more heavily, the superannuation assets would be lower and there would therefore be reduced investment income. That is, the approach of adding the superannuation numbers together does not make sense for future years.

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Our conclusion

The inclusion of several superannuation items within the TES without any allowance for the savings to the future Government budgets or some behavioural change in all the figures is flawed and misleading. It leads to the situation where the necessary community debate around the best form of taxation support for superannuation is misinformed and operates within a context that does not allow for the full picture.

We therefore recommend that Treasury should modify their calculations of the major superannuation items within the TES to recognize that these concessions will lead to future savings from Government expenditure.

If you have any questions or would like to discuss this matter further, please do not hesitate to contact me on [redacted]

Yours sincerely,

[redacted]

Dr David Knox
Senior Partner