Superannuated Commonwealth Officers' Association (Federal Council) Inc.

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Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Fitt

Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016 and Superannuation (Excess Transfer Balance Tax) Imposition Bill 2016

I am writing on behalf of the Superannuated Commonwealth Officers' Association (Federal Council) and would like to make the following comments on the above Bills.

Fairness

One of the objectives of these Bills is to make the superannuation system fairer. However the transfer balance cap has been set at $1.6 million for all superannuation income streams, including unfunded defined benefit schemes such as the CSS and the PSS.

It would be fairer to have a higher cap for such schemes so that the after-tax value of the notional cap would still be $1.6 million. Note also that any additional income of CSS and PSS pensioners would still be taxed at their marginal tax rate.

The use of a universal factor of 16 in determining the value of the notional lump sum, regardless of a pensioner's age and gender, is not fair to older pensioners. We have already mentioned this in our previous submission.

Transfer Balance Cap

The $1.6 million cap is reasonable. For CSS and PSS pensions, the loss of the 10% tax offset after the first $100,000 is acceptable. We do not support the ALP proposal to cut out the 10% tax offset after $75,000.

Indexation of the Transfer Balance Cap by the CPI

The purpose of superannuation is to substitute or supplement the age pension. The transfer balance cap should be indexed by a wage-based index such as AWOTE to ensure that it is increased in line with increases in the cost of living. The CPI is not a suitable index because it only measures price inflation, and does not take into account changes in living standards.

The Individual's Personal Transfer Balance Cap

The proportional indexation of the individual's transfer balance cap, as described in Sections 3.41 and the following paragraphs, sounds as if it would be a very complicated process. It would involve a great deal of additional work for staff at the ATO. It will tend to deter people from starting a superannuation pension before age pension age.

Modifications for Reversionary Superannuation Income Streams

SCOA welcomes the deferral of the time before the credit arises in the beneficiary's balance account for twelve months. It will provide the beneficiary with enough time to adjust their affairs.

Annual Concessional Contributions Cap

Reducing the annual concessional contributions cap to $25,000 for everybody will save the government a great deal of money and help to limit the loss of revenue arising from the removal of the income tax law that an individual must earn less than 10 per cent of their income from employment-related activities to be able get a deduction for making a concessional contribution.

We are pleased to see that the annual concessional contributions cap will be indexed in increments of $2,500 in line with AWOTE. SCOA welcomes more frequent updating of this limit.

Division 293 Tax Threshold for High-Income Earners

The proposed new limit of $250,000 is acceptable to our members. We would be happy if it were lowered to $200,000.

Non-Concessional Contributions

It is proposed that the non-concessional contributions cap will be four times the concessional contributions cap. It used to be six times. The reason for this change has not been adequately explained.

People approaching retirement age who wish to downsize will be able to put less money into superannuation per year. Since this change will not save the government any money in the short term, and may lead to higher expenditure on the age pension in the longer term, we do not understand why the government proposes to do this.

We note with approval that the bring-forward provision has been retained, subject to the requirement not to exceed the cap on the total superannuation balance.

Deducting Personal Contributions

SCOA welcomes the removal of the requirement in the income tax law that an individual must earn less than 10 per cent of their income from their employment related activities to be able to deduct a personal contribution to superannuation, thereby making it a concessional contribution.

However, we note that the amendments prevent contributions to Commonwealth public sector superannuation schemes in which the individual has a defined benefit interest from being deductible.

Unused Concessional Cap Carry Forward

SCOA welcomes this measure which will allow those who have had interrupted work patterns to catch up on their super contributions when they return to work.

Spouse Contributions

A resident individual is entitled to a tax offset up to a maximum of $540 an income year for contributions for their spouse, provided that the spouse's total income is less than $40,000 (up from $13,800).

SCOA supports this change.

Thank you for consideration of our comments. I would be happy to discuss any of them with you in detail if required. I can be contacted by mobile [redacted].

Yours sincerely

Annette Barbetti
FEDERAL PRESIDENT