CHAPTER 6 : TAX TREATMENT OF CONTRIBUTIONS

6.1 This chapter covers the current arrangements for encouraging superannuation contributions, the Committee's evidence on those arrangements and recommendations for reform. In addition, the Government's reforms in the Taxation Laws Amendment (Superannuation) Bill 1992, and evidence received thereon, will be examined.

Current arrangements

Employer Contributions

6.2 The rules governing these deductions are found in Subdivision AA, Division 3 of Part III of the *Income Tax Assessment Act 1936* (ITAA). Employers receive an income tax deduction for making contributions for the benefit of their employees or their employees' dependants.[1] The deduction is allowed where the contribution is made to an 'eligible' superannuation fund[2] which is defined to include either a complying or a non-complying superannuation fund.[3]

6.3 Two important constraints on this deduction are the two-fund rule and the Maximum Deductible Contribution Limit (MDCL). The 'two-fund rule' states that a deduction is not allowable where the employer contributes to more than two funds in respect of an employee.[4] It has applied since 1 July 1990 and was introduced in order to make the RBL contribution limits simpler and more effective. The 'two-fund rule' provides a *de facto* control over the amount of deductible employer contributions that can be made on a person's behalf. However, in very limited cases, an employer may contribute to three funds.

6.4 Under the MDCL rules, employers should take care not to make excessive contributions for their employees. Where an employer makes contributions in excess of an employee's MDCL, the fund becomes *prima facie* non-complying by breaching Regulation 18B of the OSS Regulations. The

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1 Section 82AAC(1)

2 Section 82AAC(1)

3 Section 267

4 Section 82AAC(3)

MDCL of an employee is calculated with reference to a complex formula designed to cap the level of employer contributions. Where the cap is exceeded, and the fund becomes non-complying, the excess (when a benefit is finally paid out of the fund) is taxed at the member's marginal rate. Where an employer makes contributions in excess of the MDCL, the contributions are still allowable as a deduction to the employer. Furthermore, an employer may choose to make contributions in excess of the MDCL and not claim a deduction – thus not jeopardising the complying status of the fund.

Member Contributions

6.5 In addition to employer contributions, some members receive tax incentives for superannuation contributions. Certain types of members may be eligible to claim a deduction for contributions to complying superannuation funds. Where members cannot claim such a deduction, they may be able to claim a rebate but it should be noted that many employees cannot claim either. In particular, many public servants are not eligible for either.

6.6 Before looking at the tax incentives for member contributions, it is useful to look at the difference between a deduction and a rebate, shown in Example 6.1. A deduction is subtracted from a taxpayer's assessable income to arrive at taxable income. Tax rates are then applied to the taxable income to determine tax payable. A rebate is subtracted from tax otherwise payable.

Example 6.1 : Rebates and Deductions at Work
- Pre Taxation Laws Amendment (Superannuation) Bill 1992

Peter Brown receives award only superannuation. He contributes $1 000 to a personal superannuation fund for which he is entitled to a deduction. His assessable income is $33 000. Therefore:

Taxable income = $33 000, less $1 000 = $32 000
Tax Payable (at 1992/93 rates) = $7 354 (plus medicare levy)

Mary Monaghan is entitled to a rebate for personal superannuation contributions. Assume she is entitled to a rebate of 25 per cent of her contributions, which are $900. Her assessable income is $28 000 and she has no allowable deductions. Therefore:

Taxable income	=	$28 000
Tax (at 1992/93 rates)	=	$ 5 834 (plus medicare levy)
less		$ 225 (rebate : 25% of $900)
Tax Payable		$ 5 609 (plus medicare levy)

Member Contributions – Deductions

6.7 The rules governing the deductibility of member contributions are found in Subdivision AB, Division 3 of Part III of the ITAA.

6.8 From 1 July 1990 the deductibility of member contributions hinged on whether a member fell into one of the following categories:

- unsupported persons (including self-employed and substantially self-employed);
- award-only persons; or
- other than award-only persons.

6.9 Unsupported persons are referred to in the ITAA as 'unsupported eligible persons' and are entitled to a deduction for contributions made to complying superannuation funds.[5] The deductible amount is the lesser of:

- \$3 000 plus 75 per cent of contributions in excess of \$3 000; or
- the amount required to fund a benefit equal to the member's reasonable benefit limit (RBL). RBLs are examined in Chapter 8 of this report.

6.10 Recipients of award-only support are members whose only employer support consists of contributions made pursuant to an award . These are referred to in the ITAA as 'superannuation agreement contributions' and members are entitled to a deduction of up to \$3 000 for personal superannuation contributions.[6]

6.11 Members who receive employer support may be entitled to a rebate from 1 July 1990. 'Employer support' in this instance does not include contributions made pursuant to an award.

Limit on contributions : Maximum Deductible Contribution Limit (MDCL)

6.12 Members may not receive a deduction for contributions made in excess of their MDCL. The formula for determining a member's MDCL is complex and depends on the accumulated market value of investments in the fund, the number of years to retirement and the member's maximum funding limit. The member's maximum funding limit is, in turn, dependent on the member's

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[5] Section 82AAT(2)

[6] Section 82AAS(1)

pension RBL (which is dependent on their highest average salary), age, and age at which they joined the fund.

Member Contributions – Rebates

6.13 Members who do not qualify for a deduction may be eligible for a rebate. Thus members of funds who receive no employer support or receive award only support are ineligible. The rebate provisions are contained in Subdivision AAC, Division 17 of Part III of the ITAA.

6.14 To be entitled to a rebate a member must belong to an 'eligible' scheme. An eligible scheme will be defined by the trustees of the fund to be either the whole of the membership of the fund, a subset of fund membership or even one member of the fund. The crucial characteristic of the group is that the average level of employer contributions does not exceed $1 600 per person.[7] The determination of the level of employer support depends upon the nature of the scheme. There are different rules for accumulation funds, funded defined benefit schemes and unfunded defined benefit schemes.[8] In order for a group of members to qualify as an eligible scheme, the trustee must notify all such members that the scheme is an eligible scheme in the particular year of income. Such notices must generally be supplied within 90 days of the end of the fund's previous year of income. It is important to note that an eligible scheme can only be associated with a complying superannuation fund.

6.15 Interestingly, membership of an eligible scheme does not oblige the member to make all of their superannuation contributions to that scheme. Once in an eligible scheme, the member can claim a rebate in respect of personal contributions to any complying superannuation fund.

6.16 A taxpayer who is eligible is entitled to a rebate of 25 per cent of all personal superannuation contributions of up to $3 000 per year (that is, a rebate of up to $750). Example 6.2 illustrates how this rebate works. The maximum level of rebatable contributions ($3 000) is reduced by 50 cents for each $1 the taxpayer earns over $25 000. Thus the rebate cuts out completely where the taxpayer earns $31 000. As such, the rebate is the lesser of:

- 25 per cent of ($3 000 minus one half of assessable income over $25 000); or
- 25 per cent of rebatable contributions.

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7 Note: employer support does not include contributions made under an award or an industrial agreement

8 Sections 159TE to 159TJ

Example 6.2 : Rebates at Work
- Pre Taxation Laws Amendment (Superannuation) Bill 1992

Hugo has an assessable income of $28 000 and contributes $800 to an eligible scheme. He is entitled to a rebate of:

(a) 25% of [$3 000 - {0.5 x (28 000 – 25 000)}]
= 25% x [$3 000 – $1 500]
= 25% x $1 500
= $375

OR

(b) 25% of $800
= $200

The rebate is $200, it being the lesser of (a) and (b)

The Committee's Evidence

6.17 The evidence presented to the Committee suggested overwhelming dissatisfaction with the current deductibility/rebatability arrangements. This dissatisfaction can be grouped under three broad headings, namely; inequity, insufficient incentive and complexity.

Inequity

6.18 There are essentially two strands to this argument:

- by allowing deductions (as opposed to rebates) an unfair advantage is provided to wealthier contributors; and

- it is inequitable to treat the various classes of contributors differently.

The Committee notes that it is suggested that there is inequity in the treatment between low and high income earners and among the various classes of contributors.

6.19 In particular, the Australian Council of Social Service (ACOSS) submission noted that, in addition to a deduction being prima facie unfair, the insufficient tax concession granted to low income earners must be reduced by 50 per cent 'to reflect the impact on their age pension entitlements'.[9] Noble Lowndes also noted that by offering a rebate (instead of a deduction) much of

[9] Sub no 31, p i

the bias created by the progressive tax system in giving a greater tax break to higher paid employees would be broken.[10] It was also suggested by Mr Barry Thompson, the Northern Territory Commissioner of Superannuation, that a rebate system would provide greater tax relief to low income earners.[11] LIFA suggested that rebates are easier to understand.[12] Another approach recommended that all employer and member contributions should attract a tax deduction, but that additional rebates could be paid to identified low income earners who contribute to superannuation funds.[13] National Mutual recommended that all personal contributions be rebatable up to the RBL limit.[14]

6.20 Ms Barbara Smith, a Lecturer in Accounting at the Phillip Institute of Technology, suggested that the current system 'seemingly defies logic'.[15] In her opinion:

> Current tax benefits ... favour the high income earner who is either self-employed or who can negotiate a flexible salary package to take advantage of the current legislation.[16]

6.21 The problem that Ms Smith alluded to occurs under what is called a 'salary sacrifice' arrangement whereby an employee whose superannuation is provided as a flexible element in an overall remuneration package can choose to trade salary for employer superannuation contributions. For example, instead of the employee making contributions out of salary (and maybe not being entitled to a rebate or a deduction), the employee may elect to receive less salary and make no contributions, but have the employer contribute. The effect of this is that the employee can effectively achieve full deductibility for what are member financed superannuation contributions. The Committee is concerned at the spread of salary sacrifice arrangements as the benefits appear to be enjoyed only by high-income earners. Further, it notes that such arrangements have the potential to offend the principles of vertical equity.

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[10] Sub no 80, p 4

[11] Sub no 77, p 7

[12] Sub no 114, p 11

[13] Alexander Consulting Group sub no 61, p 10

[14] Sub no 100, p 14

[15] Sub no 37, p 2

[16] Sub no 37, p 8

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.

6.22 It was also suggested in evidence that the current system is inequitable and anomalous in that it discriminates between classes of contributors.[17] The Alexander Consulting Group submitted that the current four classes of contributors be replaced by a universal scheme of rebates.[18] National Mutual pursued a similar line on simplification grounds.[19]

6.23 The Investment Funds Association of Australia (IFAA) claimed there would be merit in making concessions more consistent across different categories of members.[20] The Institute of Actuaries recommended that, subject to revenue constraints, the Government should aim for greater consistency between types of member and employer contributions and that there should be deductions or rebates for all contributions.[21]

6.24 The Government Employees Superannuation Board (GESB) indicated that 'as a general principle, all member and employer contributions should be treated the same for taxation purposes' and 'that there is no apparent rationale for different treatment'.[22] ASFA noted that, under the SGC, the level of employer support enjoyed by a member will no longer be an appropriate criterion for determining whether members can obtain tax concessions for their contributions.[23]

6.25 There appeared to be some support for treating not only all member contributions identically but all member and employer contributions the same way. This was particularly evident in the recent report of the Committee for Economic Development of Australia (CEDA), *Superannuation and Retirement Incomes,* which concluded that member and employer contributions should both

[17] ASFA sub no 89, p 18

[18] Sub no 61, p 10

[19] Sub no 100, p 14

[20] Sub no 154, p 10

[21] Sub no 108, p 3

[22] Sub no 84, p 4

[23] Sub no 89, p 18

be deductible up to aggregate limits.[24] It supported the aggregate limits suggested in *Security in Retirement* (see paragraph 6.39) acknowledging that this would expand the Government's superannuation tax expenditure and suggested that:

> To contain the impact on the revenue, the deductibility of employee contributions should be phased in over the period to 2000.[25]

6.26 Similarly, Noble Lowndes suggested a rebate of 39 cents in the dollar for member contributions to bring them into line with the company tax rate.[26]

6.27 It was noted that the introduction from 1990 of the rebate for some limited contributions is a significant improvement for low income earners.[27] However, a move towards across-the-board rebatability has two undesirable effects. ASFA notes that for contributing employer-supported members (eg public servants in compulsory contributory schemes) the extension of concessions would effect no behavioural change but would constitute a windfall gain for those members. This would lead to a drop in public savings with no increase in private saving.[28] Finally, and by no means unimportantly, ASFA suggests that full deductibility has been costed at over $1 billion per annum.[29]

6.28 The Commonwealth Bank called for a system whereby concessions could be received for contributions up to Average Weekly Earnings per annum made by employers and employees as per their own agreement.[30]

6.29 As indicated in the Committee's Second Report, *Super Guarantee Bills*, the question of allowing tax relief for contributions for those outside the workforce was not extensively canvassed by witnesses. Most of those who did comment pointed out that the main beneficiaries of such a rule would be the relatively wealthy who, in addition to financing ample, tax-subsidised superannuation for themselves, would be able to do the same for their spouses and even other relatives.[31]

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24 Committee for Economic Development of Australia (Strategic Issues Forum) *Superannuation and Retirement Incomes*, October 1992, p 17

25 ibid, p 21

26 Sub no 80, p 4

27 ASFA sub no 89, p 16

28 ibid

29 ibid (The Treasury estimate suggested)

30 Sub no 173, pp 6-7; sub no 235, pp 3-4

31 *Super Guarantee Bills* second report of the Senate Select Committee on Superannuation, paragraph 5.59, p 36

Why is a rebate fairer than a deduction?

Deductions are a regressive way of distributing superannuation tax concessions. This is because the concession provided by a deduction is dependent on the person's marginal tax rate. A rebate such as provided to members of eligible schemes is more equitable because it provides the same taxation concession to everyone who is eligible, irrespective of their marginal rate. A $1 deduction is worth 47 cents (plus medicare levy) to a taxpayer on the top marginal rate. However, the same $1 deduction is only worth 20 cents (plus medicare levy) for a taxpayer on the lowest marginal rate. It also offers a substantial simplification in that it can be set on a net of the contributions tax basis, relieving funds of the responsibility of taxing contributions. (See Chapter 7.)

Insufficient incentive

6.30 The second concern is that there is insufficient incentive via the taxation system to contribute to superannuation. This manifested itself in calls for more generous concessions for those contributing larger sums as they near retirement.

6.31 The joint submission of the Australian Society of Certified Practising Accountants (ASCPA) and the Institute of Chartered Accountants in Australia (ICAA) suggested that where minor provision had only been made to date greater tax concessions should be given for members nearing retirement.[32] This point is supported by Mr Peter Griffin of Rothschild Australia Asset Management Ltd, who suggested that the level of allowable contributions should be determined by the age of the beneficiary at the time of contribution. (Mr Griffin advised that this could facilitate the removal of the entire RBL system.[33])

6.32 There was a clear call for the concessions to be sufficient to attract employee contributions.[34] LIFA suggested that, as a minimum, all employees should be eligible for a tax deduction for up to $3 000 on contributions, whereas self-employed people should be entitled to deductions for all contributions.[35]

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32 Sub no 119, p 9

33 Sub no 133, p 6

34 Victorian Automobile Chamber of Commerce sub no 140, p 11;
Australian Chamber of Manufactures sub no 95, p 8;
National Farmers Federation sub no 83, p 7

35 Sub no 114, p 10

6.33 The AM Corporation proposed an overall limit on tax deductible contributions for members on the following basis:[36]

Age of Member	Maximum Proportion of Current Year Salary
up to 30	20%
30 to 39	30%
40 to 49	40%
over 50	50%

Simplicity

6.34 It was a common theme in evidence that the complexity of current arrangements deters members from contributing. The ACTU noted that in the voluntary contributory schemes with which they are involved, complexity is one of the principal reasons why fund members do not take the opportunity to contribute.[37]

6.35 The Australian Taxation Office (ATO) noted some of the areas where the application of the tax law is uncertain and difficult to administer:

(a) the provisions explaining the circumstances in which a person is deemed to receive employer support for deduction purposes are difficult to understand, and can require close scrutiny of an employee's individual circumstances and intentions with regard to his or her employment. In some cases the value of the tax deduction foregone far exceeds the level of superannuation support. Therefore, situations can arise where a person would be financially better off by not having employer superannuation support;

(b) eligibility for a rebate for personal superannuation contributions depends on the satisfying by the member's superannuation fund of certain notification requirements to members, which funds find difficult to satisfy. A fund's failure to fulfil the requirements prevents its members from receiving the rebate; and

(c) due to confusion about their entitlements, many taxpayers are either incorrectly claiming both a deduction and a rebate for their superannuation contributions, or they may not be claiming their full entitlement.[38]

[36] Sub no 96, p 2

[37] Sub no 106, p 17

[38] Sub no 155, pp 6-7

The Committee notes that the rebate arrangements introduced by the Bill overcome this deduction/rebate confusion.[39]

6.36 The general thrust of the ATO submission on taxation was also supported by National Mutual (NML). In particular, NML submitted that the 1990 tax concessions were implemented via some of the most complex legislation yet enacted, covering:

- five conditions for member's eligibility for a rebate;
- four conditions for 'eligible scheme' status; and
- nine alternative methods of determining employer support.[40]

6.37 Noble Lowndes suggested that members have difficulty deciding which category they fall into, if indeed they fall into any, and that the concepts of 'unsupported persons' (for member deductions) and 'eligible schemes' (for member rebates) are also too complex. They proposed that a rebate replace the current deduction and rebate arrangements.[41] This was supported by LIFA who indicated that rebates are easier to understand and often easier to administer.[42]

Summary

6.38 Some broad themes can be discerned from the above survey. First, there was a call for concessions to be sufficient to attract member contributions. This also included a call for age-based scales. Second, there was a desire a more equitable apportionment of the government's tax expenditure amongst all contributors. It was widely suggested that a rebate should replace the current deductions available for member contributions. However, there also appeared to be a desire to retain deductibility. Third, greater consistency of concessions was requested. Suggestions ranged from parity in the treatment of all employers and members to parity between all members. Some evidence pointed to the need for a different concession for self-employed, employee and employer contributions. Finally, there was a unanimous call for a simpler regime.

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[39] see paragraph 6.39.

[40] Sub no 100, p 14

[41] Sub no 80, p 4

[42] Sub no 100, p 11

Taxation Laws Amendment (Superannuation) Bill 1992

6.39 The changes announced in the Treasurer's *Security in Retirement* Statement are reflected in Taxation Laws Amendment (Superannuation) Bill 1992. In particular, Divisions 2 and 3 of Part II of the Bill deal with employer and member contributions respectively. These changes go some way to addressing community concerns about the need to implement a more simple, equitable and efficient system of concessions for superannuation contributions and include:

- Employer and self-employed member contributions will be limited by an age-based scale. This allows for the removal of the two-fund rule and the MDCL. The limits on concessionally taxed contributions will be:

Age of Member	Limit on Contributions
under 35	$ 9 000
35 to 49	$25 000
50 and over	$62 000

  The deduction limit for a self-employed person from the 1994-95 year of income will be the lesser of:

  - $3 000 plus 75 per cent of the amount of the contributions exceeding $3 000; or
  - the person's age-based limit on deductible superannuation contributions.

  Employers with more than ten full-time employees may elect to use the 'standard employee contribution limit'. Where employers so elect, the limit on deductions contributions, for the 1994-95 income year, will be based on the following formula:

  (Number of full year employee positions) multiplied by $25 000

- For 'award-only members' and those employees entitled to the rebate, a new rebate will be introduced. This rebate will be ten per cent for up to $1 000 of personal contributions to any complying superannuation fund. The maximum level of contributions will be reduced by 25 cents for each dollar of assessable income in excess of $27 000 and fully phased out at $31 000.

Evidence on the Bill

6.40 Senator the Hon. Bob McMullan stated that the Bill introduces measures which:

> respond to longstanding calls from the superannuation industry and the community to make superannuation simpler, and that the announced measures have been widely endorsed by the superannuation industry as achieving that goal.[43]

However, he stressed that the Bill must be taken as a whole and that 'it is simply not possible to mix and match individual measures and still achieve a coherent policy package'.[44]

6.41 Senator McMullan anticipated attack on some measures in the Bill, namely, the reduction in levels of concessions for member contributions and the lack of notice regarding those changes. He stated that the new rebate arrangement is:

- simpler – because it replaces the mixed system of deductions and rebates;
- more equitable – employees in similar circumstances will be entitled to the same treatment;
- better targeted – it is designed to give assistance to low and middle income earners; and
- fiscally responsible – in combination with the RBL changes the Government expects to save $230 million in 1993/94 which will help offset the anticipated $400 million cost associated with the introduction of the Superannuation Guarantee Charge (SGC).[45]

6.42 The Committee received several responses to the Bill and took evidence at a public hearing. Most written submissions expressed dissatisfaction with the rebate proposals and recommended alternative approaches.

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[43] ST Bills evidence, p 3

[44] ST Bills evidence, p 1

[45] ST Bills evidence, p 1

The ASFA Approach

6.43 ASFA first intimated its disfavour with the new rebate proposal contained in the *Security in Retirement* Statement stating that 'the Government could have been more generous in relation to the tax treatment of member contributions'.[46] ASFA clarified its submission by calling for 'an extension of the proposed new concessions for member contributions' advocating that the Government should, in order of priority:

(a) lift the rebate to, say, 20 per cent;

(b) lift the maximum qualifying contribution to, say 5 per cent of Average Weekly Earnings (approximately $1500); and

(c) lift the income cut-off point to, say, 150 per cent of Average Weekly Earnings (approximatley $45000).[47]

6.44 The thrust of ASFA's submission is that while 'very supportive of the package overall and of the rebate system for member contributions' they were 'disappointed at the limits that were imposed'[48] and hence they sought 'more generous concessions for the targeted group before seeking any extension to the group itself'.[49]

The LIFA Approach

6.45 LIFA believed that the level and scope of the new rebate arrangements 'can and should be improved'.[50] They were surprised at the low level of incentive and stated that

> Reducing or eliminating this tax incentive appears to be quite contrary to the message that individuals need to save for their own retirement.[51]

LIFA contended that the lack of incentive provided by the new arrangements will immediately make 1.2 million member contributors worse off and affect up to 2 million contributors.[52] LIFA proposed the following, in order of priority:

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46 ST Bills evidence, p 2115

47 ASFA supplementary sub no 89, 21 September 1992

48 ST Bills evidence, p 15

49 ibid

50 Supplementary sub no 114, p 5

51 ST Bills evidence, p 17

52 ibid, p 2

(a) increase the $1 000 limit to $2 000;

(b) increase the 10 per cent rebate to 20 per cent; and

(c) increase the $27 000 salary threshold to $35 000.[53]

6.46 In support of their submission, LIFA asserted that the $2 000 limit on contributions 'would encompass the majority of employee contributions and encourage those who can afford to save more for their retirement to do so'.[54] Furthermore, they suggested that a 20 per cent rebate is crucial to stimulating voluntary employee contributions and is 'closer to the effective existing incentive'.[55] They recommended $35 000 as an appropriate salary threshold as that is 'the level where salary packaging arrangements become more common'.[56]

6.47 Alternatively, LIFA argued that the reduced personal incentives could be phased in according to the following timetable:[57]

Year	Rebate Level	Maximum Rebatable Contributions
1992 – 93	25 %	$3000
1993 – 94	20 %	$2500
1994 – 95	15 %	$1500
1995 – 96	10 %	$1000

6.48 Senator McMullan opposed the call for the new rebate to be phased in, stating that there would be a cost to revenue and that it would lead to 'an extremely complex and confusing situation'.[58] He added that a phasing scale would merely 'create an illusion of comfort'.[59]

6.49 As indicated earlier in this chapter, CEDA supported the aggregate limits on deductible employer contributions set out in the *Security in Retirement* Statement but suggested that members should be entitled to make deductible contributions to these limits.[60]

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[53] ibid, p 5

[54] ibid

[55] ibid

[56] ibid, p 6

[57] ibid, p 4

[58] ST Bills evidence, p 9

[59] ibid

[60] CEDA op cit, p 21

6.50 The question of how many people would be affected by the new rebate provisions was also canvassed by Treasury officials. The Treasury provided evidence that of the 1.3 million members claiming a deduction for contributions, one million would lose their entitlement. Furthermore, 1.2 million people will be eligible to claim the new rebate of which 300 000 claimed the old rebate (and were better off under that arrangement). Overall, Treasury reported that the Australian Tax Office had established that 'one million people would be worse off'.[61]

6.51 Evidence was also provided to the Committee that the saving to revenue from abolishing the deduction would be $325 million and the cost to revenue of the rebate reform would be $95 million in 1992/93. Thus, the overall savings of these measures would be $230 million. This is intended to offset the expected $400 million cost to revenue of the Superannuation Guarantee package in its first year of operation.[62]

6.52 The Treasury were asked to demonstrate that the current generation of low income earners would be better off than if they had simply received the age pension. The Treasury responded immediately with material it had previously presented to the Committee which showed that low income earners can be expected to have a higher retirement income under the SGC regime than if they relied solely on the age pension.[63]

The Institute of Actuaries Approach

6.53 Mr Colin Grenfell representing the Institute stated that it still had three main concerns, namely: the tax incentives are not universal, are too low and are not preserved.[64] With respect to universality, the Institute reiterated its call for equality in treatment of member and employer contributions.[65]

Conclusions

6.54 The Committee considers that reform of this area of taxation is overdue. The changes envisaged in the Bill go a considerable way to addressing calls for a more simple, equitable and efficient system of tax concessions for contributions.

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[61] ST Bills evidence, p 4

[62] ibid

[63] ST Bills sub no 31, p 1

[64] ST Bills evidence, p 16

[65] ibid

Employer Contributions

6.55 The rules applying to employer contributions are simpler than those applying to member contributions. Replacement of the two-fund rule and Maximum Deductible Contribution Limit with simple age-based scales enhances the simplicity of the arrangements.

Member Contributions

6.56 The Bill simplifies arrangements providing member contribution incentives. Despite the strong criticism of the lack of incentive provided for with the new rebate, the Committee considers that in light of the Superannuation Guarantee Charge and the new RBL arrangements, anything higher would be unnecessary and fiscally irresponsible.

6.57 In terms of equity, the Bill forms an integral part of an equitable policy which has as its foundation the Superannuation Guarantee Charge. Finally, in terms of efficiency, the Bill restores neutrality between taxpayers in similar circumstances.

Future Considerations

6.58 With respect to areas for future reform, the Government still has a number of areas to consider. With regard to the self-employed, the Government will need to reconsider its position when it decides to bring them within the ambit of the Superannuation Guarantee Charge. Equally, the Government may need to revisit the question of member tax incentives when it tackles the question of how to raise total employee superannuation support from nine to twelve per cent of earnings.