

## CHAPTER 8:

### OTHER INITIATIVES

#### Tax File Numbers

##### *Background*

8.1 The Treasurer's Statement, in announcing other measures to assist the small amounts problem, indicated that legislation would be introduced 'to allow the extended usage of Tax File Numbers (TFNs) in identifying and amalgamating superannuation accounts'.<sup>1</sup> Such use would only be made with employee authorisation.

##### *Current usage*

8.2 The present use of TFNs in the superannuation industry is strictly limited as they may only be obtained and/or quoted in the following circumstances:

- on payment of the SG Charge to the ATO, an employer must quote the employee's TFN if it is known;
- on transferring monies to an ERF, a trustee may quote a member's TFN with the member's authority; and
- on receipt of benefits such as an eligible termination payment, pension or annuity, members must quote their TFN in order to prevent tax at the highest marginal rate.

##### *Proposed usage*

8.3 The Treasurer's Statement stipulates:

- SIS will be amended to:
  - (a) allow superannuation funds to collect TFNs from new and existing members (and from other funds as in (b) below) for account identification purposes;

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1 The Hon Ralph Willis, MP, Treasurer, *Statement on superannuation policy*, 28 June 1994

- (b) allow a superannuation fund to provide a member's TFN to another superannuation fund when transferring the member's benefits to that superannuation fund;
  - (c) allow employees to authorise the use of TFNs provided to their employers for superannuation purposes and, subject to their being so authorised, require employers to quote the employee's TFN to a superannuation fund when making contributions on behalf of the employee to that fund.
- In order to facilitate the ATO collection mechanism the *Superannuation Guarantee (Administration) Act 1992* will be amended to require employers to quote an employee's TFN to the ATO when making contributions under the mechanism.<sup>2</sup>

8.4 The Treasurer's Statement also provides that the extension of the use of TFNs will help to streamline superannuation administration and reduce costs. For example:

it would facilitate the tracking of lost members, assist in specifically identifying members when transferring amounts between funds as envisaged, for example, under the transfer protocol, and enable funds to internally identify and amalgamate multiple contributions on behalf of the same individual.<sup>3</sup>

### Privacy

8.5 The Treasurer has recognised the importance of privacy considerations in extending the use of TFNs: 'As always, there is a need to balance proposals to extend the use of the TFN with the legitimate privacy concerns of individuals'.<sup>4</sup>

8.6 In the Committee's inquiry on the SIS Bills, the Privacy Commissioner submitted on the extended use of TFNs outlined in that legislation. In that submission the Commissioner stated that 'the ultimate responsibility for determining the public interest issues involved in any major extension of use of the tax file number in the community must lie with Parliament'.<sup>5</sup>

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2 The Hon Ralph Willis, MP, Treasurer, *Superannuation policy - statement of measures*, 28 June 1994

3 The Hon Ralph Willis, MP, Treasurer, *Superannuation policy - statement of measures*, 28 June 1994

4 The Hon Ralph Willis, MP, Treasurer, *Superannuation policy - statement of measures*, 28 June 1994

5 SIS Sub No 94

8.7 The Privacy Commissioner gave qualified support to the SIS proposal that once collected by the funds, the TFN could be used for other authorised purposes which did not involve any new users, uses or storage of the TFN. The Commissioner noted that 'individuals should be able to choose whether or not they quote their tax file number'. The Commissioner stated that the proviso for his support of the extension was that:

individuals are given notice of the practice at the point of first collection of the tax file number including: the purpose of collection; any later proposed uses; notice that quoting a tax file number is voluntary for the purpose of identifying members who may later need to claim benefits from an eligible rollover fund or the ISC; and giving member the opportunity to opt for a specific collection for each authorised purpose.<sup>6</sup>

8.8 The Committee did not receive a submission for the Privacy Commissioner in relation to the proposed changes outlined in the Treasurer's Statement of 28 June 1994, but has taken account of the concerns raised in the Privacy Commissioner's earlier submission.

8.9 The Committee did not receive any negative responses to the proposed extended uses of TFNs. The overwhelming support from all sectors in the superannuation arena has indicated to the Committee the need for the extension to be implemented promptly.

#### *Responses to the extended use of TFNs*

8.10 The Australian Federation of Consumer Organisations (AFCO) strongly supported the extension of the use of TFNs. It submitted that the use of TFNs would assist in the consolidation of superannuation accounts and the tracing of lost members. AFCO believes extended usage 'underpins the ability of consumers to easily keep track of their superannuation investment'.<sup>7</sup>

8.11 Westscheme submitted that extended TFN use would 'make the identifying numbers of members and participating employers for SGC purposes a composite of the relevant scheme tax file number and their individual tax file number'. Westscheme claim this would reduce the administrative problems that were created by the implementation of the SG.<sup>8</sup>

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6 SIS Sub No 94

7 SGCREV Sub No 20 Supplementary

8 SGCREV Sub No 28

8.12 Westscheme also believes that extending the use of TFNs would assist the enforcement of SG compliance. The consequence would be a reduction in the cost of compliance which is currently being borne by scheme members as opposed to SG defaulters.

8.13 General support for the extended use of TFNs was also received from AMP who indicated it would assist in the location of lost members.<sup>9</sup> ASFA believes that the use of TFNs 'is a welcome rationalisation of the current complex requirements'.<sup>10</sup>

8.14 Mrs Val Pate, Riverland Horticultural Council, outlined a number of difficulties experienced in administering small amounts for part-time and casual workers. Mrs Pate believes that the incidence of monies belonging to lost members ending up in Consolidated Revenue could be reduced by using TFNs for membership numbers. This would minimise many of the difficulties now being experienced with lost members.<sup>11</sup>

8.15 Jacques Martin Industry submitted that current employee information received from employers when SG contributions are made is inadequate and results in casual employees being unaware of the existence of such accounts. Knowledge of these accounts would allow the aggregation of benefits upon changes in employment.<sup>12</sup>

8.16 Jacques Martin suggested that 'with regard to the TFN it is our view that the Privacy Commissioner needs to take a more pragmatic approach and permit its use in the situation just described'. Jacques Martin highlighted the point that:

It is, after all, in the interests of the employee and consistent with the objectives of the recent Treasurer's Statement, ie to prevent the erosion of small balances and encourage their aggregation as much as possible.

8.17 In the light of the evidence regarding the extended usage of TFNs for superannuation purposes, the Committee reaffirms Recommendation 9.1 in the ninth report, *Super Supervision Bills* which reads:

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9 SGCREV Sub No 75

10 SGCREV Sub No 5 Supplementary

11 SGCREV Sub No 105

12 SGCREV Sub No 92

**Amendment to the Superannuation Industry (Supervision) Bill 1993****Collection and Use of Tax File Numbers (TFNs)**

The Committee recommends that the SIS legislation be amended to allow superannuation funds to collect member TFNs, subject to member consent, from the date the Bill receives Royal Assent. In addition, the Committee recommends that the SIS legislation be amended to allow superannuation funds, to use TFNs for taxation and transfer of benefits purposes.<sup>13</sup>

**Recommendation 8.1:**

**The Committee reaffirms its recommendation as set out in its report, *Super Supervision Bills*, that extended usage of TFNs for superannuation purposes be allowed, subject to member consent.**

**2 to 7 year contribution period***Outline*

8.18 Under SIS, a regulated superannuation fund can only accept contributions that are made in respect of a member who is under age 65 if:

- the contributions are mandated employer contributions; or
- the contributions are not mandated employer contributions and the member:
  - \* **has, at any time in the preceding 2 years, engaged in full-time or part-time gainful employment; or**
  - \* **ceased full-time or part time gainful employment because of ill-health (whether physical or mental) that, at the date of acceptance, prevents the member from engaging in employment of the kind that the member engaged in at the onset of the ill-health.**

8.19 Mandated employer contributions include contributions made by or on behalf of an employer:

- that reduce the employer's potential liability for the superannuation guarantee charge or payments of shortfall components;
- that are made to meet an obligation under an agreement certified, or an award made, on or after 1 July 1986 by an industrial authority.

*Extension of contribution period*

8.20 In a press release dated 18 July 1994, Mr Paul Elliott, MP, Parliamentary Secretary to the Treasurer, announced that amendments would be made to the *SIS Act* to allow non-working parents (male and female) to continue to make superannuation contributions for up to seven years where they are temporarily out of the workforce for child rearing purposes.

8.21 In his press release Mr Elliott stated:

The proposal will particularly benefit women, who traditionally have less money in their superannuation funds on retirement than men do.

This is because women typically have both lower salary levels and broken working patterns, due mostly to the commitments of raising children.

This initiative is another example of the Government's commitment to increasing the standard of living for women in retirement.<sup>14</sup>

8.22 Mr Elliott's announcement appeared to have resulted from the difficulties currently experienced by workers, particularly women, whose broken work patterns prevent a growth in superannuation savings. Current provisions limit contributions to a two year period. However, the Office of the Status of Women (OSW) believes that 'given that most breaks in employment are likely to be unpaid it is unlikely women could afford to continue superannuation contributions during this 2 year period'.<sup>15</sup>

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14 Mr Paul Elliott, MP, Parliamentary Secretary to the Treasurer, *Women benefit from superannuation changes*, (press release), 18 July 1994

15 SGCREV Sub No 68

8.23 In a follow-up statement on 28 October 1994, Mr Elliott stated that:

From 1 July 1994, a person leaving employment for child rearing purposes will also be permitted to contribute to superannuation for up to seven years - **provided they retain the right to return to their original job**, (for example, leave without pay).<sup>16</sup>

8.24 OSW indicated that the reasons behind Mr Elliott's announcement were differences between the SIS legislation and awards. Ms Hall, in appearing before the Committee, stated:

Various awards allowed for people to be away from the workplace for greater lengths of time than for two years and obviously still demonstrated that occupational link to that workplace and to a particular job.<sup>17</sup>

8.25 The NSW Cabinet Office believes the current two year limit indirectly discriminates against women whose work patterns may see them out of the workforce for more than two years. The NSW Cabinet Office argues that:

since the two year limit may not be long enough to reflect women's typical work patterns, it may create barriers to women's ability to save for their retirement, should they wish to do so.<sup>18</sup>

8.26 An increase in the time limit is seen by the NSW Cabinet Office as encouraging people to continue to save for retirement despite extended periods out of the workforce. An extension of the time limit too far, from the point of view of the superannuation funds, may create administrative problems in keeping track of inactive accounts. For this reason, the NSW Cabinet Office also submitted that 'if the prescribed time limit were to be increased, it may be appropriate to restrict it to a maximum of, say, five years'.<sup>19</sup>

8.27 The Committee believes the question which begs to be asked is: who can leave their employment for seven years and reasonably expect their job to be there when they return?

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16 Mr Paul Elliott, MP, Parliamentary Secretary to the Treasurer, *Government decision on women and superannuation*, (press release), 28 October 1994

17 Evidence, p 511

18 SGCREV Sub No 19

19 SGCREV Sub No 19

8.28 An associated issue was raised by Dr Alan Grant, of Gosford in NSW, who suggested that there be no age limit on making contributions while a person is working.<sup>20</sup>