

General Manager
Superannuation, Retirement and Savings Division
The Treasury
Langton Crescent
PARKES ACT 2600

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Dear Sir

Submission to Simpler Super Enquiry

I am a private citizen. These comments do not represent any interest group.

I would be personally advantaged by the proposals, but nevertheless I do not agree with them.

This submission is NOT confidential.

1. Differential tax rates by source of income cause distortions

Differential tax rates according to the source of income are not consistent with current Australian tax policy. Tax rates on unearned income and transfers, such as interest, grossed-up dividends, property rental income and social security benefits are currently equal to tax rates on earned income. The only current exception is capital gains tax, but even there the 50% concession is roughly counterbalanced by the lack of CPI indexing on post-1999 gains.

Differential tax rates by source of income introduce distortions:

- they give windfall gains to those who have already contributed large amounts to superannuation
- they discourage savings and personal investment outside superannuation. This is likely to impact adversely on residential real estate investment in particular. I do not believe that residential real estate investment is either less desirable or more desirable than other forms of investment. However, if the government wishes to discourage residential real estate investment, there are far less blunt weapons for doing so
- they discourage borrowing for investment (super funds cannot borrow)
- they disadvantage persons receiving social security benefits, which remain fully taxable under the proposals
- especially in conjunction with the abolition of RBLs, persons who have not yet reached retirement age will be able to shelter assets in a trusted older person's name without locking them up for a long period and receive them back soon as a tax-free gifted income stream plus investment earnings which have been taxed at a concessional rate. Older persons may even be able to hire themselves out for this purpose. This is presumably

contrary to the intention of the proposals.

If the goal is simply to favour older persons, this can be achieved more cleanly and equitably through differential tax rates by age, or by age-related rebates, rather than by differentiating by source of income.

2. Simplifying administration complexity without removing tax

Simplifying administration complexity for superannuation funds is a worthy goal. It could be furthered without abolishing tax on pensions by simply removing PAYE withholding obligations on pensions from super funds, i.e. the fund would merely provide a Payment Summary showing the amount of pension and zero PAYE tax deducted. The burden would be on the pension recipient to declare the income and pay any tax due.

Yours sincerely

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