

A Plan to Simplify and Streamline Superannuation

Submission regarding a death benefit payment to a non-dependant

George Turner

The plan proposes that the entire taxable component of a death benefit payment to a non-dependant be taxed at 15 per cent, (Section 2.4). I advocate that this tax be removed for the following reasons.

Contrary to the new principle of no tax on any benefit when age 60 plus

Although the proposed tax on death benefits is no worse than the current tax, it is contrary to the new principle of "no tax on any benefit when age 60 plus" and is the equivalent to a death duty or inheritance tax.

Negates other measures to simplify superannuation

The tax re-introduces complexities and reporting requirements and means there will be minimal reduction in the task of managing and administrating superannuation funds. In addition, financial planners will be kept in work providing advice on how to avoid the tax.

As the tax is different on taxable and exempt components, it will be necessary to calculate the amount of these components remaining at the time of death. Amongst other things, this means it will be necessary to calculate the undeducted purchase price of an allocated pension and calculate and record the undeducted contribution component of all benefits (pensions and lump sums) paid.

Open to avoidance

The tax can be avoided by a "death bed conversion" where, just before death, a member withdraws all benefits from their fund as a lump sum and pays no tax.

To make sure a member is not caught out by their sudden death, an alternative would be a variation on the old re-contribution strategy. Lump sums would be withdrawn tax free and re-contributed as undeducted contributions, provided certain age and maximum contribution conditions are met.

Inequitable

The tax discriminates against childless and widowed persons as they have no dependants. Death benefits to dependants are tax free.

Inefficient

The revenue collected is likely to be quite small as people with large superannuation balances will probably receive advice and take action to avoid the tax.

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