

WORKING TITLE: All aboard the super tax reform bandwagon

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In the lead up to the 2013 election both the Coalition and the ALP pledged to make no changes to the superannuation system in the coming term of government. Stability, we were told, was what they system needed. Less than three years later both major parties are promising to change the superannuation system. Reform, we are told, is what the system needs.

What hasn't changed in the last three years is the evidence for the existence of fundamental structural problems and chronic inequities within the superannuation system. Ten years ago I highlighted the empirical fact that most full time workers would receive more from tax concessions for their superannuation than they ever would have been eligible to receive from the age pension. It has been clear for a decade that tax concessions for superannuation were a cost to the budget, not a source of saving.

The idea that superannuation tax concessions 'take pressure off the budget' is as baseless in fact as it is widely held among its beneficiaries. Given that most of the tax concessions accrue to the wealthiest Australians who are ineligible for the age pension, how could helping them pay less tax help the budget bottom line? The logic is as absurd as it is convenient for its wealthy beneficiaries.

When viewed from the other end of the income distribution the superannuation system yields similar absurdities. If the objective of the system was to help 'take pressure off the age pension' then a quick look at the data would suggest that the group in society that is most likely to rely on the age pension is women who have worked in low wage jobs and who have taken time out of the labour force to care for others. Guess which groups benefit least from tax concessions superannuation?

It gets worse. under legislation passed by the Abbott government, those who earn below the \$18,000 tax free threshold will from 2017 pay more tax on their superannuation contributions (the flat 15 per cent contributions tax rate) than they would on their ordinary pay (zero). Put another way, we force low income earners to spend 9.25 per cent of their income buying compulsory superannuation and then tax them more on that purchase than we would on their income.

Such obscene inequity is not an 'unintended consequence' of some complicated change to the system. On the contrary, while the ALP had introduced the Low income Superannuation Contribution (LISC) to prevent low income earners paying more tax on their compulsory savings than their income, Tony Abbott specifically sought to repeal that exact measure on the spurious basis that it had been 'funded'

by the mining tax which he also repealed. Tellingly, Mr Abbott did not repeal most of the income tax cuts that were 'funded by the carbon tax' when he repealed the carbon tax.

Compulsory superannuation is, on the whole, a good idea. There is no doubt the finance sector, who make \$20 billion per years administering the system still love Hawke and Keating's plan to boost the retirement savings of the middle class. But the days in which the primary purpose of superannuation was to help workers retire on more than the age pension are long gone.

In his first budget Peter Costello introduced a surcharge on high income earners' superannuation contributions arguing that the benefit they got from the flat 15 per cent contributions tax was expensive and unfair. In 2005 he scrapped his own surcharge and in his final budget he actually made all withdrawals from superannuation entirely tax free. The ATO tells us that at least one person has more than \$100 million in their self-managed super fund. No doubt they sent Profligate Pete a Christmas card that year.

It is important to realise that the superannuation system is not just broken, but that it was deliberately broken by 10 years of policy designed to transform it from a system designed to boost retirement incomes for middle income workers to a system designed to avoid tax for Australia's wealthiest families.

The new consensus that the system is broken and needs fixing is a welcome relief from the denial that pervaded the political and media debate just a few years ago. It is easy to improve the superannuation system. Simply reversing a decades worth of expensive and inequitable changes would be a good start.

Superannuation policy reform is quite simple. Taking money of the richest people in Australia has proved quite difficult in recent years. This could get interesting.

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