

**OPENING ADDRESS**  
**TO THE IFSA/PWC NATIONAL SUPERANNUATION, SAVINGS**  
**AND INVESTMENT PRE-ELECTION SYMPOSIUM**  
**SYDNEY**  
**21 SEPTEMBER 2007**

**THE HON PETER DUTTON MP**  
**MINISTER FOR REVENUE AND ASSISTANT TREASURER**

Well, Peter, thank you very much, can I just firstly clarify that my voice is like this not because of screaming and shouting from yesterday. It's because I've got my second bout of flu I think in the last month. The pleasure of having young children, I think, who convey all these diseases kindly onto their parents.

So thank you very much for the opportunity to be here with you this morning. I am sorry that I'm running late, getting out of Canberra post-sitting week of course is very difficult. We got seven of the nine or ten floors on the way up, the boom gate wouldn't open at the airport, we had an aborted landing as we came into Sydney airport. So it was against us this morning, but it is a great pleasure to be here with you and of course events like this provide a prime opportunity, particularly at this time in the electoral cycle, to reflect not just on the past but to be able to analyse the present and to be able to explain to Australian people where we see the future of this country.

I want to say to you very proudly today that through good economic management the Howard Government has ensured that Australia has a strong, secure outlook. Australians are now earning more in real terms than we were 10 years ago, we have a greater choice of career path, we have better access to education and we have the confidence in the financial future of this country.

Australia's economic performance by any standard, but by international comparison in particular, has been particularly impressive. We have had sixteen years of uninterrupted growth, we've had over 2 million jobs created, a real increase in wages over that time of 21%, and all of that has only been possible because of economic management and the way in which the Government has engaged with all Australians, including and in particular business over the last dozen years.

When we came to Government, you'd know that we inherited a Labor Party debt of \$96 billion. It cost us about \$8.5 billion dollars a year to service that debt. Since that time we've now been able to provide the Australian community with surplus in most years. We've provided the Australian community with far reaching reforms. The necessary reforms, not just in industrial relations, but in relation to welfare and in relation to our taxation system.

That economic management has paid dividends to all Australians and when we talk about economic management we talk about being able to provide dividends and returns to Australians and in particular to Australian families. But most recently we've been able to deliver to all Australians tax cuts worth about \$31.5 billion dollars over the estimates and that is in addition to the almost \$37 billion worth of tax cuts announced in the 2006-07 Budget.

The latest round of tax cuts ensure that over 80% of Australians will pay 30% or less in relation to their tax rates and only 2% of Australian tax payers will be paying the top marginal tax rate. Now that is an incredible feat when you consider where we've come over the last couple of years.

Now contrary to some self styled tax experts, thresholds in this country don't cascade down the spectrum. Cutting tax rates and raising thresholds do have a flow on effect to our economy. They give Australian businesses and tax payer's greater control over their hard earned money and that is at the core of what this Government has been about.

All these Howard Government reforms contributed to the strength, to the resilience and to the performance of the Australian economy today and all of those reforms were opposed one by one by the opposition Labor Party in this country.

## **SUPERANNUATION**

As Australians, one of our proudest initiatives over the period of the Howard Government so far has been our reform to superannuation. The Government has always recognised that superannuation needed to play a more significant role in preparing Australia for the challenges of the future including the very real challenge, the challenge with us now, the ageing of our population.

A measure of the confidence of Australians and the confidence that they have in their superannuation system is whether people rate superannuation as the wisest place for savings. And this is a specific question of course asked quarterly in the Westpac Melbourne Institute Survey of Consumer Sentiment.

In March 2006, the last result before the announcement of Better Super, only 4% of Australians thought superannuation was the wisest place for savings. Now what made that figure really bad was that 5% said that it was better 'spending it'.

Not the best result, not one that was sustainable. But the complexity of superannuation in this country meant that we had to reform it, we had to provide fundamental change. And the Howard Government acted and we acted decisively.

I'm sure that everyone in this room is well aware of many of the significant changes brought about by Better Super, tax free benefits for people over the age of 60 years if they're pulling down their super from a taxed fund, higher aged pension payments for many and a better deal of course for self employed — a crucial part of the changes that we've implemented in relation to superannuation.

In September 2007, the most recent result of the Westpac Index, 11% of Australians now thought that superannuation was the wisest place for their savings, an almost 3 fold increase. The result has no doubt been helped by the Government's advertising campaign providing education to consumers about the benefits of superannuation. That has been very important to provide support to the superannuation industry in its efforts to fully inform the Australian people of the benefits of a new and improved system.

The superannuation system has gone through many reforms and changes over the past decade. Better Super has been about providing a break down in complexity and a conveyance of that message to younger people in particular. All of those reforms and changes to superannuation though, even now with a simpler, fairer and more attractive savings vehicle, would not have been possible if we weren't able to pay for them through the economic reforms and the management of the Australian economy over the last 11 years.

People need to know that they will be able to invest in their future under rules that won't change substantially in the foreseeable future. That is an important part of superannuation change and, when you talk to young people in particular, they want to know that there is going to be stability in superannuation. That there is going to be a system which they can relate to, that they're not threatened by, that new taxes may not be introduced into the

future for them, to make that decision, that discretionary decision to put money into superannuation.

They need also though to know that economic conditions will continue to be conducive of high growth for their retirement savings. And as I say most importantly they need to know that if our economy was soured by a union dominated government that the super reforms wouldn't mean a return of the 15% tax at the end, which some commentators have spoken about, and that is something that we need to debate as part of this election campaign.

But since 2001, the conversation about superannuation really has moved along quite remarkably. When you consider that superannuation from 2001 has grown from \$500 billion to over \$1 trillion earlier this year, about \$1.2 trillion right now, it really is an incredible success story. It's about 120% of our GDP. Now Australia might have the world's 54<sup>th</sup> largest population and the 15<sup>th</sup> largest economy, but it has, depending on which source you consult, either the 4<sup>th</sup> perhaps even the 2<sup>nd</sup> largest pool of investable funds in the world only behind Japan.

The key to our strong performance, to the future prosperity and to the growth of superannuation, is continuing economic growth and strong performance of our economy. More than 2 million jobs, as I say, have been created and we are now in a position with our lowest unemployment rate for 33 years. Now logically that means more people are in jobs, more people now have the capacity to contribute to their superannuation, more people have a capacity with higher real wages to add to their superannuation and benefit from the compounding of their investment as they approach retirement.

As I said Australia is now in its 16<sup>th</sup> consecutive year of uninterrupted economic expansion. Inflation is low, Government finances are in order and household net nominal wealth is now \$4.4 trillion. 2.7 times the \$1.7 trillion when this Government first took office. Now that all means that people's savings and investments can grow at a much faster rate.

We need to continue the policies that made this growth possible. We need continued fiscal discipline and running of budget surpluses. We need to provide continuing tax relief and cutting of red tape. We need workplace reforms to stay in place. We need welfare to work reforms to stay in place. We need further investment in education and training and our Government is committed to all of those.

It is the good economic management and sensible pro-growth policies of the Howard Government which have helped the Australian economy weather the storms of the Asian economic crisis and the turmoil following SARS and the September 11 terrorist attacks.

It is the same good economic management, ladies and gentlemen, and pro-growth policies of the Howard Government, that the Australian economy needs today and into the future to weather any international economic events such as those taking place in the United States at the moment, in parts of the United Kingdom and the flow on effect particularly that that would have to broader Europe.

Now Australian superannuation assets are estimated to reach \$2.8 trillion by 2020 or 144% of GDP. But we cannot take anything for granted. This growth and the future well being of Australian workers is premised on the current economic performance continuing into the future.

## **FURTHER WORK**

I want to briefly outline some of the Government's current superannuation initiatives. Last week I announced that the Government would allow terminally ill individuals to draw down their superannuation tax free. Today I can announce that this initiative will be achieved through introducing a new condition of release for the terminally ill. This will allow those who are terminally ill but still working to access their super for the first time.

The administration arrangements for this new condition of release, including whether it will be administered by APRA or super funds, will be determined in close consultation with the industry as the necessary legislation is developed. That is a sensible outcome and when we talk again about the economy and the benefits of running a sound economy, these are the dividends that we are able to provide for those in the Australian community most in need.

Last week I introduced into Parliament a package of measures designed to enhance the mechanisms for reviewing prudential decisions under financial sector legislation. The measures include introducing a court based process for disqualifying individuals from responsible person positions within APRA regulated entities. The measures will improve the transparency and accountability for the regulator for its decisions and they have been strongly supported by the industry. It is a further instalment on the Government's commitment to cut red tape for the financial sector.

In addition, it is becoming increasingly important for our country's superannuation system to be flexible enough to recognise the increasing international mobility of skilled workers. The Government is actively negotiating with New Zealand at the moment to be able to allow people from both of our countries to transfer their superannuation benefits between our Better Super system and the Kiwi Saver accounts. If that can be facilitated; it will be a great outcome for workers in both countries.

## **FINANCIAL SERVICES EXPORTS**

Australia's superannuation assets now provide a firm base for the financial services industry to continue to expand both domestically and internationally. Your industry has strongly advocated the need to further develop and promote financial services exports.

A strong and dynamic managed funds sector is crucial to meeting the needs of Australians for superannuation, investment and insurance products. Industry concerns that the takeover provisions in chapter 6 of the Corporations Act potentially restrict financial returns to investors in managed funds is a matter, that I can tell you, the Government is looking at.

The export of Australian funds management services represents a significant opportunity for the growth of the financial sector and the Australian economy more generally.

The Government has taken a number of actions to support industry efforts to promote these exports. In particular, we have introduced measures to simplify the taxation regime that applies to the managed funds industry.

The Government is also committed to pursuing the liberalisation of trade in financial services, through both multilateral and bilateral free trade negotiations. We are also pursuing complementary efforts through APEC and other forums to build support in the region for financial sector reform.

The Government is keenly aware of the importance of continuing to work with industry to identify and explore more ways to promote greater exports of Australian financial services.

You would be aware of the Government's recent amendments to Division 6C and the capital gains tax legislation to improve the competitiveness of Australian managed funds with stapled groups. These amendments will help strengthen Australian managed funds through growth and offshore acquisitions.

As I announced to Parliament last Wednesday, the Government acknowledges the need for broader reform to taxation arrangements for managed funds— currently in Division 6C — to ascertain what sensible reforms can be made.

This process commenced earlier in the year with Treasury initiating discussion with the Property Council regarding possible reforms of Division 6C.

I can also inform you that Treasury has been undertaking discussions with IFSA regarding a taxation regime for managed investment trusts.

In addition, the Treasurer recently announced that the new Australia-Japan tax treaty would limit, on a reciprocal basis, the withholding tax rate on certain distributions from Real Estate Investment Trusts to 15 per cent. Australia will continue to seek similar, reciprocal outcomes in future treaty negotiations, including the pending negotiations with the Netherlands and Germany.

IFSA has raised with Government the potential impact of Australia's source rules for businesses undertaking management activity on behalf of foreign clients in relation to their offshore investments.

The Howard Government has a very good record in relation to its reforms of international tax arrangements: the participation exemption, the branch profits exemption, the foreign non portfolio dividend exemption, among many others. Measures that contribute to the international competitiveness of Australian business.

While Australia always needs to give proper consideration to protecting its revenue base, there must be flexibility in dealing with the rapidly changing nature of cross-border activity. This Government does not want to impede growth in what is becoming an increasingly important sector of the Australian economy.

The United Kingdom and Hong Kong have introduced an investment manager exemption. The initiative allows an exemption for profits made by an independent manager dealing in foreign securities on behalf of a non resident principal. It aims at removing tax uncertainty and attracting funds under management. The Government is examining the submission proposing an investment manager exemption.

## **CONCLUSION**

Finally can I say thank you very much to your professional associations and institutes and for your individual input into many of the consultation processes that have taken place, particularly over the period of time that I have been in this role. It has been refreshing to be able to work constructively with industry and I think we have been able to provide some

very good outcomes. We've provided good outcomes in a number of areas and you would have seen yesterday the introduction of TOFA in the most recent TLAB Bill.

As I stated at the outset of this speech, Australia is in a good financial position. When we talk about a good financial position, when we talk about the benefits of running a strong economy, it is about delivering good outcomes to Australian families, to Australian businesses and to people who are most deserving in our society. We have a strong and sustainable financial services industry and, with such a good track record, the financial services industry can be confident that a re-elected Howard Government will ensure that Australia and its financial services industry continues to develop and continues to grow.

Can I say that I look forward to continuing our own discussion with IFSA and its stakeholders which is very much appreciated and I encourage all of you to continue dialogue with Government. I hope to do that also by way of questions this morning. Thank-you very much.