OPED FINAL – SOAK THE RICH

BY SALLY LOANE, CEO OF THE FINANCIAL SERVICES COUNCIL

“Soak the Rich” headlines always get a good response. And this week we saw plenty of that when evidence was presented that 75,000 or so Australians have $1million or more stashed away in their superannuation vault, and are only lightly touched by taxation, while the rest of us toil and save without such generous breaks.

These Australians are the lucky few who jumped through a small window of opportunity opened by the Howard/Costello government enjoying the surplus delivered by a mining boom which appeared to have no end. While there are multi-millionaires, and probably even billionaires in this group, there are also many thousands of ordinary working people who cashed in their small businesses, sold property or tipped lifetime savings through the Costello superannuation loop.

Lucky them. But this is a legacy that no longer exists. The million dollar plus tax-free accumulation loophole was closed eight years ago. Today, no-one can accumulate more than $35,000 at 15 per cent tax in any one year. The “lucky club” of wealthy retirees should rightly be viewed as an exclusive club whose members are falling, not growing. And let’s not forget that they are tipping this wealth, via spending, right back into the local economy, and many won’t be relying on the public purse via the age pension.

The real issues around tax reform, superannuation and its place in a retirement outcomes system which delivers the best possible standard of living for as many Australians as possible and reduces the reliance on the old age pension, are much more complex. They must be delivered in tandem. It makes no sense to isolate superannuation without considering all the “sacred cows” – yes − tax treatment of superannuation, but we should not leave the family home, capital gains and dividend imputation – and most crucially, the pensions assets and incomes test and the GST off the table.

While these are all fiercely defended, they do need to be included if we are to reform our tax system and ensure it is efficient and effective relative to other countries in the region − our high level of company tax and inefficient state taxes are all reducing Australia’s competitiveness as a place to do business**.** Our 1950s tax system which is now so heavily reliant on corporate and income taxes, is no longer sustainable.

Any changes to super tax treatment must be synchronised with changes to the age pension. They cannot be dealt with in isolation. Further, structural changes to the superannuation tax regime must include detailed modelling on the budgetary and individual impacts of reform options. We have not yet seen anything worthy of serious consideration.

There is low hanging fruit in this discussion.

This includes the generosity in the part pension eligibility and the superannuation access age . Encouragingly, the Government is ‘amber lighting’ the vexed question as to whether the correct people are receiving the age pension based on their personal wealth.

Eligibility rules are too loose. A couple who own their own home, who hold an additional $1 million in assets, can receive an income of up to $70,000 per year are still eligible for a part-pension. This is neither fair nor sustainable. Welfare and social security should be for people who genuinely need assistance. Raising the super preservation age to 65, to better align it with the pension eligibility age, closes the retirement savings gap significantly. For each year the preservation age is increased $200 billion is added to retirement savings

Finally, the GST must stop being treated as a political hot potato. Increasing its spread and rate (at ten per cent our GST is one of the lowest in the OECD countries is one of the most elegant mechanisms for capturing extra tax from the wealthy, the biggest spenders – and this of course includes the Lucky Club of wealthy multi-million dollar self-funded retirees.

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