2014-15 FEDERAL BUDGET SUBMISSION

About FSC

The Financial Services Council represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, trustee companies and public trustees. The Council has over 125 members who are responsible for investing more than $2.2 trillion on behalf of 11 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

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Executive Summary

As the largest sector in the Australian economy and the investor of $2.2 trillion on behalf of all Australians, the financial services industry has a direct interest in the fiscal, economic and policy issues addressed by the Commonwealth Budget.

The contribution of the financial services industry will be critical in addressing Australia's policy and fiscal challenges and boosting economic growth in the medium to long term. As the nation continues to age, superannuation and life insurance can increasingly reduce the pressure on public finances.

The Financial Services Council's (FSC) submission to the 2014-15 Budget undertakes two core tasks:

- Budget sustainability – we consider ways in which the insurance and superannuation industries can reduce the pressure on public finances as the government pursues a surplus within a decade; and
- Exporting and growing financial services – we make recommendations to grow Australia's largest industry through policy and taxation changes that can improve competitiveness and drive financial services exports.

> ***Higher take up of private disability insurance would reduce pressure on public finances and would save $2.5 billion per annum in the tenth year following reform of disability payments***

Achieving budget sustainability – leveraging the financial services sector

The FSC is pleased that federal budgets will now include four to 10 year forward estimates for line items where it makes sense to project 10 years ahead. We support the government's objective to achieve sustainable fiscal settings.

A longer timeframe for consideration will lead to greater knowledge of how today's public policy settings will impact the long term sustainability of public finances.

Life insurance and superannuation are major policy devices for dealing with an ageing population and increasing welfare costs.

For example, the National Disability Insurance Scheme (NDIS) will cost the Australian Government $19.3 billion over seven years from 2012. It is timely to consider whether the costs of the NDIS could be partially defrayed through private disability insurance provided by the private sector.

We also believe that the costs associated with welfare expenses including the Disability Support Pension (DSP) could be reduced.

Higher take up of private disability insurance would reduce pressure on public finances and should deliver a higher standard of living for disabled Australians.

New research conducted by KPMG for the FSC (included in this submission) estimates the government would save $2.5 billion per annum in the tenth year following reform of disability payments.

Exporting financial services

Our economy is transitioning. Mining investment is winding down from its peak and other sectors such as manufacturing are in structural decline.

Australia's comparative advantage lies in our services economy. With the right policy settings, services will deliver stronger growth in the future.

At 8.7 per cent of GDP, financial services is the largest sector in the economy. Our financial services industry is diverse, innovative, scalable and well-regulated. We have world-leading capabilities in funds and private pension management.

However, regulation has held the industry back from developing into an export industry.

The industry has been unable to deliver for Australia beyond our shores.

At $2.2 trillion Australia has the third largest pool of assets under management in the world. Our fund managers and superannuation funds are globally recognised for their expertise in pioneering infrastructure investment and are viewed as leaders in managing equity, cash, property, fixed income and alternative asset classes.

A combination of out-dated regulation and taxation settings has prevented Australia from exporting these skills for managing foreign capital.

For example, 60 per cent of the assets managed in Hong Kong belong to foreign investors.[1] In contrast, our pool of $2.2 trillion under management, approximately five per cent is foreign sourced.[2]

In contrast to Australia, countries such as Luxembourg, Ireland, Singapore and Hong Kong promote and attract financial services through targeted regulatory and taxation settings.

[1] Address by Alexa Lam Hong Kong SFC Deputy CEO - December 2013

[2] ABS catalogue 5655.0 ($77bn foreign sourced from the pool of $2.2 trilion)

As Australia is not managing large amounts of foreign money, we do not receive the flow-on benefits from higher economic activity, employment and tax collection.

Instead, we are losing this business to Hong Kong, Singapore and others in our time zone. We urge the government to reform our regulatory and taxation settings to enhance our competitiveness and export opportunities.

Finally, in considering new policy and fiscal changes, it is important that our budget forecasting methodology takes long-term fiscal changes into account. This is particularly relevant when for measures designed to enhance Australian competitiveness in financial services and measuring domestic tax concessions such as superannuation.

JOHN BROGDEN
Chief Executive Officer
Financial Services Council

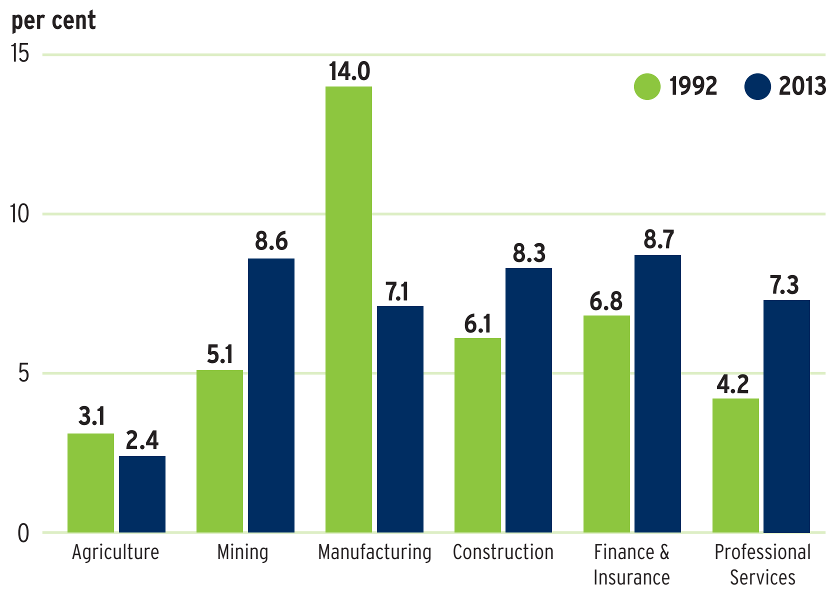
Introduction

The financial services industry is the largest industry in the Australian economy. The industry contributes 8.7 per cent to Australia's GDP (gross value added) and, as demonstrated in Chart A, is larger than the mining, manufacturing and construction industries.

Australian fund managers manage $2.2 trillion, the third largest pool of contestable funds in the world. This is larger than the capitalisation of the Australian Securities Exchange and larger than Australia's GDP. Over 80 per cent ($1.75 trillion) is managed by superannuation funds.

Financial services has also grown strongly over the past two decades and, in spite of the global financial crisis, has not suffered the same level of cyclical instability experienced by mining and construction, or the gradual decline experienced by manufacturing.

Chart A. Industry gross value added to GDP[3]

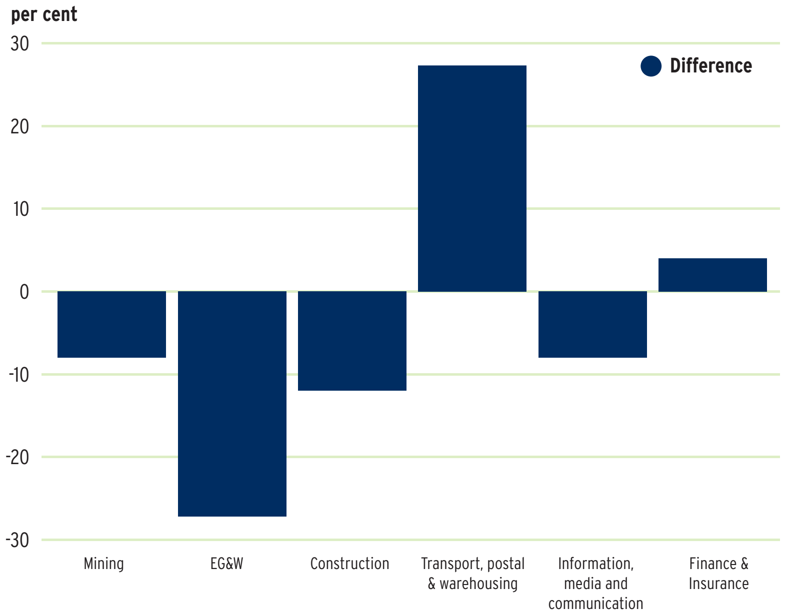


The financial services industry employs 415 000 people, with the overwhelming majority in high skilled, high wage occupations.[4] By way of comparison, the mining industry, even under current boom conditions, employs only 277 000 people.[5]

[3] ABS5204
[4] ABS 6291.0.55.003
[5] ABS 6291.0.55.003

The financial services industry pays a disproportionately large level of corporate tax compared to its contribution to GDP. The average tax rate of financial services is higher than most other major sectors of the economy, and continued to be so even during the global financial crisis, as demonstrated in Chart B.

Chart B. 2006-07 to 2008-09 Average Tax Rate deviations from mean by industry[6]



Treasury's 2011 Economic Roundup confirmed that the average tax rate for the financial services sector has been higher than most other industries for at least the past six years.[7]

Given the size of the financial services industry in the Australian economy and the significant additional contribution the industry makes through the investment of the nation's savings, the FSC urges the Government to adopt its policy recommendations which will:

- Reduce reliance on the Age and Disability pensions and alleviate pressure on the Budget in the long-run;
- Increase the industry's export contribution to GDP; and
- Improve the efficiency and productivity of the taxation system.

[6] Treasury, Economic Roundup Issue 2, 2011
[7] Treasury, Economic Roundup Issue 2, 2011

Budget Forecasting Methodology

The current forecasting methodology used by Treasury does not take sufficient account of behavioural effects of tax policy changes on the Budget. The changes to forecasting methodologies in the United Kingdom (UK) are an example of changes that should be considered by Australia.

In the UK, HM Treasury takes into account direct behavioural impacts and the Office of Budget Responsibility takes into account indirect economic effects of policy measures in the Budget.[8] HM Treasury describes its inclusion of direct behavioural changes arising from policy changes:

> *The direct policy costings capture a number of behavioural effects specific to the relevant tax base itself, or closely associated taxes. These behavioural effects are mainly micro-economic changes modelled against precise changes in tax policy.*[9]

In the UK, for example, this has included behavioural effects of changes in capital gains tax and on the level and timing of asset realisation and the effect on avoidance of the tax base.

Where there is uncertainty around the impact and size of behavioural effects, research from academics, and other external bodies, is used to inform estimates of the size of behavioural effects.

The Australian Treasury does take into account behavioural impacts of large tax policy changes that are designed to have economic or productivity enhancing impacts. However, this is not the case for smaller tax changes. For such changes Treasury will estimate the cost of the measure in terms of tax revenue foregone but does not undertake (or at least publish) any indirect or behavioural changes that may benefit the Budget.

Over time, this means that any new policies that may decrease revenue in the short-run, with the potential for large revenue or economic benefits in the long-run are deemed to have only costs to the Budget and economy and deliver no benefits. The current method of estimating the costs and benefits of such changes is asymmetric since it includes costs but not benefits.

[8] HM Treasury, Budget 2011 Policy Costings p. 5
[9] Ibid paragraph p. 5

Example

Australia's withholding tax regime and rate increase

One example is Australia's withholding tax on foreign investors who invest through Australian fund managers. As Australia's tax rate is higher than other countries in the region our financial services exports suffer. Yet if the tax is reduced, Treasury only takes into account the cost to the Budget of the reduced withholding tax. It does not estimate or comment on the potential for growth that may result or even track the impacts over time.

In 2011, the Government announced it would increase the Managed Investment Trust (MIT) withholding tax to 15 per cent (overnight a doubling of the rate from 7.5 per cent). By doing this the Government created a significant arbitrage opportunity which encourages foreign investment via debt rather than equity. Interest withholding tax (IWT) generally applies at the rate of 10 per cent (it can be even lower for certain tax payers). Put simply, foreign investors will not subject themselves to a 15 per cent tax rate for investment in equity when they can invest in debt equivalents and have the returns taxed at 10 per cent. The increased rate has a significantly negative impact on property and infrastructure funds.

Direct revenue implications

The Budget measure was anticipated to collect $260 million over the forward estimates. The FSC raised serious doubts about the veracity of this estimate and noted that the wider tax implications of the measure had not been factored in. Below is a partial analysis of the foregone revenue impact of the measure, resulting from lower management fees alone which was not taken into account.

Based on discussions with FSC members and press reports, we understood that around $1 billion of investment was unlikely to proceed as a result of the announcement. By way of example, assuming a 1.0 per cent management fee is levied across the industry, the consequence of $1 billion of investment not proceeding equates to $10 million per annum less in management fees.

Analyst reports estimated that the change would result in a five per cent reduction in the value of existing investments. This part of the sector is estimated to manage approximately $129 billion worth of assets. A five per cent reduction in the value of these investments equates to $6.84 billion. Again, assuming a 1.0 per cent management fee is levied across the industry, an additional $68 million in management fees would have been earned on this amount.

The combined foregone management fees amount to at least $78 million. This translates into a reduction in corporate tax receipts of $23 million. This is almost half the reported revenue gain in the first year of the measure.

Indirect revenue implications

It is also necessary to consider the broader tax/revenue implications of these changes. The nature of MIT projects is that they generate significant levels of employment – particularly in the construction industry but not exclusively. Should these projects stall, there will be a reduction in associated income tax collections.

Further, fund managers earn fees from managing MIT funds which are subject to tax at the company tax rate (currently 30 per cent). Again, should these and future projects not go ahead there will be a commensurate reduction in company tax receipts.

Altering Treasury's methodology for estimating such changes so that it includes behavioural effects on those directly affected by the change in the tax measure would improve the government's ability to evaluate the effectiveness of proposed policy changes. Currently, in many cases, there is no mechanism to do this. We provide recommendations on this particular tax rate cited as an example, in a later section of this submission: "Australia as a financial centre".

> **Recommendation 1:** The FSC recommends Treasury review Australia's budget forecasting methodology, benchmarked against recent developments in other countries and consider including indirect impacts of tax policy changes.

Costs to government of disability-related welfare and underinsurance

Disability Support Pension

Social security and welfare spending is the most significant federal budget expense accounting for 35%, or around $138 billion of government expenses in 2013-14.[10] The Disability Support Pension (DSP) accounts for around 11% of this expenditure or $15.5 billion. DSP expenditure is projected to increase by 15% to almost $18 billion by 2016-17.[11]

In excess of 800,000 people receive DSP benefits and over the past 20 years, DSP recipient numbers have grown more than recipient numbers in any other government income support program.[12] In 2012-13 there were 51,418 new DSP claims granted.[13]

The FSC is concerned about the sustainability of growing DSP expenditure at a time of increased budget pressure. We believe there are options available to the government to transfer risk and the associated budget expense to the private insurance sector which have not been previously considered.

According to new research conducted for the FSC by KPMG, roughly 9.5 million Australians, or 44% of the population, could mitigate the economic risks of disability through private disability insurance. Disability insurance can provide a regular income replacement benefit if an individual suffers an illness or injury and is incapable of working either temporarily or permanently.[14]

Research has consistently shown that Australians are significantly underinsured against the social and economic impacts of disability. According to KPMG's analysis, 35% of employed people in Australia do not have any private disability insurance at all and on aggregate, the level of disability underinsurance is estimated to be $304 billion per annum. Underinsurance is measured against an adequate level of insurance designed to cover basic needs such as mortgage repayments as well as ensuring that standards of living are broadly unchanged following the death or disability of an income earner. Employed Australians aged 45-64 are the most underinsured with an average of just 23% of their "adequate" [15] insurance needs met by private disability insurance cover.

[10] Australian Government, 2013-2014 Budget Paper No. 1, Statement 6: Expenses and Net Capital Investment
[11] Australian Government, 2013-2014 Budget Paper No. 1, Statement 6: Expenses and Net Capital Investment, Table 3.1
[12] 2011-12 Budget Review, Disability support pension reforms
[13] 2012-13 Annual Report, Department of Human Services
[14] KPMG, Underinsurance – *Disability Insurance Protection Gap in Australia*, 2014
[15] KPMG define "adequate" insurance as the level of insurance designed to cover the family's needs until the children become adult and, if relevant, provide ongoing rental support until the partner retires. The healthy partner is expected to continue to work (or return to work if not in employment)

The government should consider the benefits of expanding the role of private insurance to improve the standard of living for the disabled and to minimise DSP expenditure. With more employed Australians adequately insured against the economic risks of disability, fewer would need to rely on the DSP as a safety net should they suffer an illness or injury and be unable to work. Social outcomes could be expected to improve as income replacement from insurance would enable the standard of living (in economic terms) to be broadly maintained.

In addition to the social outcomes, further analysis showed that based on current DSP means-testing, every dollar of income received from private insurance can be expected to reduce the DSP by 50 cents through reduced eligibility.

This translates to a government cost saving in the first year, if Australians are adequately insured, of at least $340 million for each cohort of new disability pensioners even before the tax revenue foregone is taken into account. According to the FSC's research, the cumulative annual savings effect of adequate disability insurance is estimated to be $2.5 billion per annum in the 10th year, as measured by lower DSP payments.

In summary, the FSC believes that both long-term budget sustainability and the standard of living for disabled persons can be improved with increased coverage of private disability insurance within the community. Both fiscal and social policy goals can be achieved with the correct design features.

> **Recommendation 2:** The FSC recommends the government consider policy options including tax incentives and/or disincentives to increase the level of private disability insurance coverage in Australia in order to reduce the level of Commonwealth expenditure in relation to the DSP.
>
> Further, the McClure Review of welfare payments should consider ways in which private disability insurance could reduce the increasing flow of persons onto the DSP without compromising living standards of disabled persons.

National Disability Insurance Scheme

The Australian Government has committed $19.3 billion over seven years from 2012-13 to fund 53 per cent of the cost of the National Disability Insurance Scheme (NDIS) with the states and territories to fund the remaining cost. Eligibility for the NDIS will not be means tested and financial support will be available to those who are born with or acquire a permanent disability. The FSC supports the establishment of the NDIS and the National Injury Insurance Scheme (NIIS).

The NDIS and the NIIS will provide funding for care and support services for those with a significant disability such as attendant nursing care, rehabilitation, and home and vehicle modifications.

However, the NDIS and NIIS will not provide an ongoing income replacement benefit where a disability is acquired as provided by adequate disability insurance. Such benefits enable an individual to maintain his or her standard of living and continue to meet financial obligations such as mortgage payments, rent, daily living expenses and education costs for the children in the family. There appears to be an expectation within sectors of the community who assume that the NDIS and or NIIS would provide the level of coverage commensurate with comprehensive disability cover.

The FSC believes that the role of the NDIS and NIIS is not well understood within the community. We believe this expectation gap is not the intention of the government.

It would be a poor public policy and fiscal outcome if the NDIS and the NIIS resulted in Australians abandoning life (disability) insurance in the expectation that these schemes will provide for all of their needs. If this expectation results in a large number of persons reducing or eliminating their privately sourced disability cover, it is likely the increased pressure on public finances would be unsustainable.

We believe it is essential that the government clearly communicate to the community the differences between the NDIS and the NIIS and personal disability insurance (provided by the private sector as has been the case with travel insurance).

We submit that both are complementary - thereby providing a comprehensive safety net for those who have or sustain a serious disability.

Recommendation 3: The FSC recommends the government:

- Remove the word "insurance" from the name of the Scheme to avoid confusion and misunderstanding about its purpose; and
- Communicate that the NDIS and NIIS do not replace the need for adequate personal disability insurance to highlight the differences between the financial support that will be provided by the NDIS/NIIS and financial benefits of having adequate life and disability insurance.

Recommendation 4: The FSC recommends the government consider policy options including tax incentives and/or disincentives to encourage the take-up of private disability insurance that would complement the NDIS and NIIS.

The government should model the long term public sector cost reduction which could be possible with broader take-up of private disability insurance thereby supplanting the need for public expenditure.

Superannuation, Pensions and Sustainable Public Finances

Superannuation is an important long-term policy designed to alleviate age-related costs that threaten the stability of public finances. It also has a significant impact on the immediate Budget forecasts, in terms of both the tax concessions afforded to contributions and fund earnings.

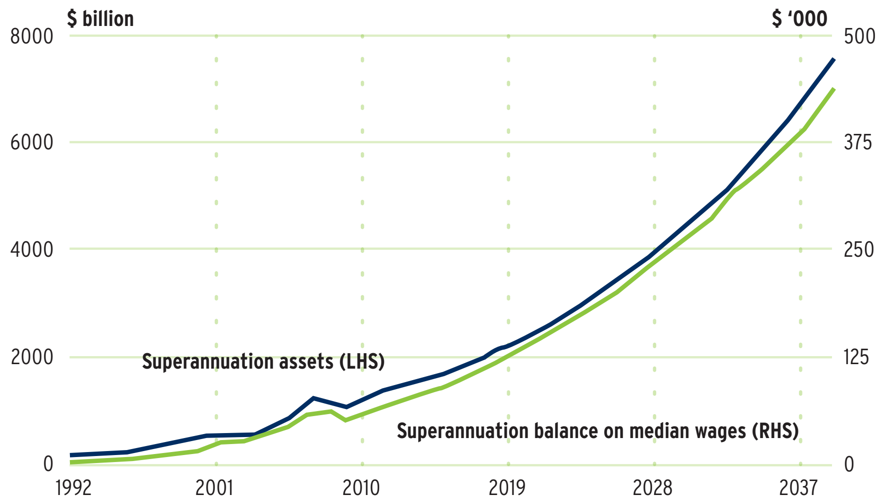
Through managing over $1.7 trillion in retirement savings the superannuation system is making a significant contribution to government revenue. As demonstrated in the Budget, $8.5 billion in tax is forecast to be paid by superannuation funds in 2013-14.[16]

As markets have continued to return to growth after the financial crisis, current taxation settings will result in government revenue benefiting from strong receipts from both contributions tax and earnings tax.

In the 2007-08 financial year total superannuation savings equalled only $1.13 trillion[17] but with strong market growth, superannuation funds contributed over $12 billion to government revenue, or 50 per cent more than under 2011-12 market conditions. Similar revenue streams can be expected in the near term if markets continue to perform strongly, albeit with adjustment for a structurally higher Australian dollar and low interest rates and bond yields.

Treasury forecasts that within 25 years superannuation savings will reach $7 trillion, or 130 per cent of forecast GDP, and individual balances will continue to grow as demonstrated in Chart C.

Chart C. Superannuation assets and superannuation accumulator[18]



[16] 2013-14 Commonwealth Budget, Statement 5
[17] APRA Statistics June 2011, page 32
[18] 2012-13 Commonwealth Budget, Statement 4

Earnings tax receipts on a large pool of savings could, on average, be expected to increase in proportion to the size of the pool across the cycle. The 2013-14 Budget outlined the forecast growth in revenue from superannuation funds as illustrated in Chart D, with tax receipts from superannuation funds expected to balloon to $14.3 billion in 2016-17.

Chart D. 2012-13 Government revenue projections[19]

	ACTUAL	ESTIMATES			PROJECTIONS	
	2011-12 $m	2012-13 $m	2013-14 $m	2014-15 $m	2015-16 $m	2016-17 $m
Individuals' and other withholding taxes						
Gross income tax withholding	143,978	151,660	164,660	178,100	192,120	204,820
Gross other individuals	32,992	35,940	37,490	41,580	46,640	51,580
less: Refunds	25,537	26,750	26,800	28,350	30,250	32,100
Total individuals' and other withholding tax	151,433	160,850	175,350	191,330	208,510	224,300
Fringe benefits tax	3,964	3,890	4,320	4,740	5,080	5,390
Company tax	66,726	68,132	73,969	74,860	80,666	85,213
Superannuation funds	7,852	7,800	8,480	10,210	12,850	14,270
Resource rent taxe(s)	1,293	1,740	3,420	3,530	4,180	5,340
Income taxation revenue	**231,268**	**242,412**	**265,539**	**284,670**	**311,286**	**334,513**

Earnings tax levied on a pool of domestic savings as large as 130 per cent of GDP clearly offers a strong source of government revenue under current tax policy settings, underpinning the long-term fiscal sustainability of the superannuation system.

Earnings tax from superannuation would not be available without the compulsory superannuation system being in existence. The system is necessary as Australians do not otherwise save for their own retirement without the correct mix of compulsion and incentives in the form of tax concessions.

After historical lows in Australia's national savings, at the start of the 1990s, before the superannuation system was established, Australia's national savings were significantly above the advanced economy average by 2011. It is also above the world average, which includes high saving East Asian counties, as shown in Chart E.

[19] 2013-14 Commonwealth Budget, Statement 5

Chart E. International comparison of gross national saving[20]

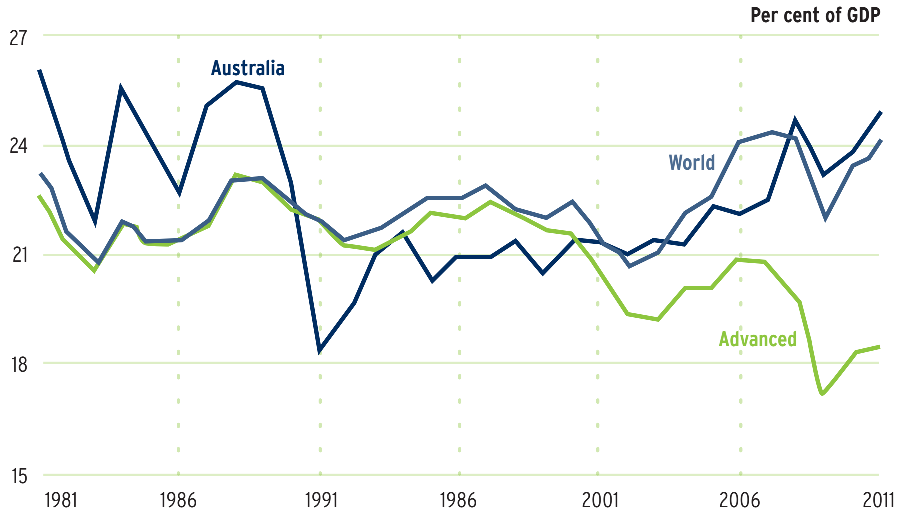


Chart E shows that Australia's national savings relative to the rest of the world has grown steadily since the introduction of the Superannuation Guarantee Charge (SGC) in 1992. When compared to the impact on national savings of the 1990-92 recession the global financial crisis and the Asian financial crisis were relatively modest. From a macroeconomic perspective, the benefit to the Australian economy of this stable growth in national savings in a manner that is resilient to international shocks cannot be understated.

> **Recommendation 5:** The FSC recommends the government recognise that the superannuation system has created a pool of capital that would not have otherwise existed, which is increasingly contributing to government revenue in line with the growth of that pool.

Sustainability of Super Tax Concessions

In contrast to the $8.5 billion in revenue the government will receive from superannuation funds, Budget estimates show that superannuation funds are also afforded tax concessions in return for Australian workers agreeing to compulsorily save their income for up to 40 years.

[20] 2012-13 Commonwealth Budget, Statement 4

The revenue cost of tax concessions afforded to superannuation in 2012-13 totalled $30.25 billion as follows: [21]

- Concessional taxation of superannuation entity earnings - $17.10 billion (earnings tax); and
- Concessional taxation of employer contributions - $13.15 billion (contributions tax).

The FSC will consider these two concessions discretely in this submission, and is concerned that they are regularly reported in aggregate.

Earnings tax

The FSC submits that Treasury practice is misleading in its classification of the $17 billion concessional taxation of superannuation entity earnings as a 'concession'. Without compulsory superannuation Australians would change their behaviour and the $1.7 trillion in retirement savings would be spent and invested elsewhere.

The government's assumption that behaviour would not change, which is the basis of the revenue cost, is highly improbable. Instead, it is far more likely that, in lieu of superannuation existing, a significant portion of the revenue would be 'lost' as individuals would 'save' via the tax-free family home, or spend a portion of their income on the 40 per cent of goods and services that escape the GST, reducing the overall size of the taxable pool of national savings.

Treasury itself concedes the flaw in classifying this arrangement as a concession:

> *The revenue forgone approach - this approach measures the difference in tax paid by taxpayers who receive a particular concession relative to similar taxpayers who do not receive that concession. It compares the current/prospective treatment to the benchmark treatment, assuming taxpayer behaviour is unchanged. Accordingly, revenue forgone tax expenditures measure the impact of a concession in terms of the benefit taxpayers derive from the concession given their behaviour once it is in place.*[22]
>
> *Care should be taken when interpreting the tax expenditure estimates presented in this document. The estimates of reported tax expenditures are not necessarily reliable indicators of the budgetary impact of removing particular tax concessions.*[23]

[21] 2012-13 Tax Expenditures Statement
[22] Tax Expenditures Statement 2012 at 16
[23] Ibid at 19

The rationale for classifying the forgone revenue from earnings tax as a 'concession' is further weakened by the Senior Australians and Pensioners Tax Offset (SAPTO). Under SAPTO individual retirees can receive an annual tax free income of $32,279 and couples $57,948 tax free. This effectively allows a retiree to hold approximately $600,000 in cash ($1.16 million for couples) outside of superannuation without paying tax.

If superannuation funds were to be required to pay tax when the account holder is in retirement, retirees would simply move their savings outside of the superannuation system and retain their tax free status. This would result in no revenue gain for the government, and undermine the stability of the retirement system.

The FSC submits that the reported $17 billion revenue cost that arises from the concessional taxation of superannuation entity earnings is a significant over-estimate.

> **Recommendation 6:** The FSC recommends that the government adopt a more appropriate model of calculating tax concessions that takes into account behavioural change, or the revenue forgone approach currently utilised is abandoned due to its inaccuracy.

Contributions tax

The $13 billion tax concession on contributions is significant in the context of the Budget. However, the concessional taxation of contributions accounts for only a small proportion of the $82.5 billion in total mandatory contributions. The tax concession is a modest but necessary government contribution for compelling individuals to save 12 per cent of their income for up to 40 years.

The concession also assisted in attracting a further $34.2 billion in discretionary contributions in 2012-13, a second important contributor to national savings.

> **Recommendation 7:** The FSC recommends the government recognise that a tax concession is a necessary ongoing precondition to requiring employees to contribute to their superannuation from their income.

Delay to the increase to the Superannuation Guarantee Charge

The increase in the SGC to 12 per cent will be the single biggest contributor to retirement savings adequacy.

The FSC recognises that the government announced its proposed two-year delay to the rate of increase in the SGC prior to the 2013 election and was elected with that position. The FSC is concerned, however, that the proposed delay undermines the policy rationale underpinning increasing the SGC to 12 per cent to minimise the expected cost of the ageing population to the government.

The proposed delay also adds to public uncertainty around the security of the superannuation system in the context of ongoing fiscal pressures.

Policy rationale for 12 per cent SGC

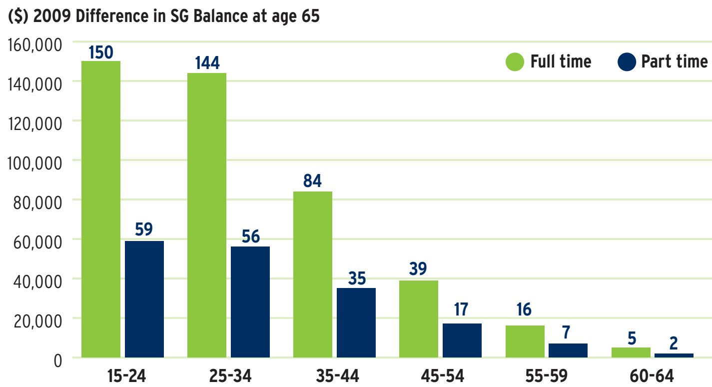
The FSC welcomes the government's commitment to increase the SGC to 12 per cent. The increase will generate long-term economic benefits and continue to address the national shortfall in retirement savings that is creating Budget challenges.

Australia currently has a significant 'savings gap,' the difference between the amount required to be saved by the nation as a whole to ensure adequacy in retirement and the amount that will be saved in the superannuation system by the current workforce. Rice Warner Actuaries has determined that under an SGC of 12 per cent the savings gap is over $1 trillion when you take into account those who will live longer than life expectancy.[24]

A University of Canberra NATSEM Report modelled the importance of an increase in the SGC rate to 12 per cent to address the gap by growing individual account balances as shown in Chart F.

[24] Longevity Savings Gap Research and Policy Options, Rice Warner Actuaries, September 2012

Chart F - projected difference in super balance at age 65 by age group and labour force status[25]



Note: The values shown are the protected difference between SG contributions of 12% and 9% per annum until age 65. The projections assume real wages growth of 1% per annum and real superannuation returns of 4% pa.
Source: NATSEM estimates based on HILDA data

Increasing the SGC to 12 per cent achieves a long-term benefit for younger working Australians. Employees aged 15 to 24 will benefit from the increase in the SGC to 12 per cent by adding $150 000 to their retirement savings by age 65. NATSEM concluded that, "clearly an additional $150 000 in superannuation will make a major difference to a person's standard of living in retirement and help reduce the fiscal pressure on future governments." [26]

Impact of two-year delay in SGC rate increase

The proposed two year delay in the scheduled increase in the SGC undermines the effectiveness of the increase. For those who are likely to retire over the next decade, the delay detracts from the forecast $39,000 increase in individual retirement savings that they would otherwise have accrued.

Significantly, the proposed delay to the phasing in of the Super Guarantee to 12 per cent will result in a cumulative impact of around $40 billion less in super savings in the system over the next seven years.

The FSC strongly believes there should be no further delays to the increase in the SGC to avoid exacerbating intergenerational pressure on public finances resulting from demographic change in Australia's population.

Future demographic changes will generate the problem of a shrinking tax base compounded by increased spending on health and pension costs. According to the latest Intergenerational Report, health costs will almost double by 2050 to 27 per cent of GDP while pension costs are expected to rise from 2.7 per cent to 3.9 per cent of GDP over the next 40 years.

[25] NATSEM Report, Saving Tomorrow April 2010
[26] NATSEM Report, Saving Tomorrow April 2010 at 24

Any shortfall in retirement savings arising from the delayed timing for the SGC increases the number of retirees who will receive the Age Pension and increases the amount of Age Pension they will be paid over their retirement. It will therefore accentuate the impact of the ageing population on the government and future tax payers.

SGC impact on the economy

There is no evidence to support the proposition that the increase to the SGC is a tax on business or negative for business generally. The implementation schedule was specifically designed to allow employers to take the increased SGC contributions into account when negotiating future wage settlements, ensuring that the phased increase would largely fall on individuals.

The experience following the introduction of the SGC and during the increase to nine per cent shows that business conditions in Australia in fact improved significantly:

- Profits as a share of GDP increased during this period, growing from around six per cent of GDP in the early 1990s to around eight per cent in the early 2000s;
- At the same time, productivity rose as real unit labour costs fell;
- The decline in real unit labour costs was particularly pronounced between 1998 and 2003 when the SG rose from six to nine per cent; and
- The unemployment rate declined steadily to its lowest level in decades.

There is also a significant positive impact on the economy of increasing the pool of national savings. Superannuation stabilised the Australian economy during the financial crisis by providing a domestic pool of funds on which Australian businesses were able to draw.

It is estimated that Australia accounted for $90 billion or 10 per cent of the world's total recapitalisation in 2009 allowing Australian businesses to be less reliant on the vagaries of international credit markets.

> **Recommendation 8:** The FSC recommends the government fully implement its committed increase in the SGC to 12 per cent by 1 July 2021.

Superannuation preservation age

Increasing mature age workforce participation is a key means through which the government can improve output in the Australian economy and strengthen public finances over the long-term in the face of an ageing population.

An effective measure to boost participation is to increase the preservation age, the age at which Australians can access their superannuation savings, to increase retirement savings and reduce reliance on the Age Pension.

The preservation age is currently transitioning from 55-60 years based on an individual's date of birth as outlined in Chart G.

Chart G. Transitional arrangements for preservation age[27]

DATE OF BIRTH	PRESERVATION AGE (YEARS)
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
After 30 June 1964	60

The FSC has advocated for an increase in the superannuation preservation age to 62 years restoring the traditional five year gap with the Age Pension eligibility age (which was altered when the Age Pension eligibility was increased to 67 from 2023 in the 2009-10 Budget).

This would reduce the national private retirement savings gap by $400 billion as outlined in Chart H[28].

Chart H. Total Retirement Savings Gap - delaying retirement age ($billion)[29]

AS AT 30 JUNE 2011	MALES	FEMALES	TOTAL
Retire at age 60	1,333	993	2,326
Retire at age 61	1,248	889	2,137
Retire at age 62	1,111	794	1,905
Retire at age 63	1,000	722	1,722
Retire at age 64	878	641	1,519
Retire at age 65	701	588	1,289
Retire at age 66	573	494	1,067
Retire at age 67	453	383	836

27 http://www.ato.gov.au/Super/Self-managed-super-funds/Accessing-your-super/Preservation-age/
28 FSC Submission based on Rice Warner Actuaries modelling
29 FSC & Rice Warner Actuaries, Longevity Savings Gap Report, 2012

There would also be a significant positive Budget outcome from increasing the preservation age which has been broadly supported by the Productivity Commission.[30]

For instance, the Grattan Institute has also recently modelled increasing both the preservation age and the Age Pension eligibility to 70 years by 2035. The estimated saving would be $12 billion by 2023 and $15 billion in 2035 (today's dollars).[31]

Government finances would be improved by an increase in the preservation age, as fewer future retirees would be eligible for the Age Pension as they would have higher personal savings and spend less time in retirement. Mature age workers would also pay additional income and contributions tax whilst they continued to work.

Further, those who work beyond the age of 60 years are also likely to receive lower total Age Pension payments as they will draw down less of their savings during the critical years between superannuation eligibility and Age Pension eligibility.

Higher levels of mature age workforce participation would also have significant benefits for the broader economy. The first report from the Advisory Panel on the Economic Potential of Senior Australians concluded that using the existing skills and experience of older Australians would bring a windfall for the Australian economy of $10.8 billion a year.[32] The report also found that engagement in the workforce has significant mental and physical health benefits for older Australians.

The possible burden for some mature workers of a higher preservation age is reduced by the availability of transition to retirement arrangements, which allow mature workers to reduce the number of hours they work whilst continuing to make superannuation contributions.

> **Recommendation 9:** The FSC recommends a phased-in increase to the preservation age to 62 years to restore the five-year gap between the preservation age and the Age Pension eligibility age.

[30] Productivity Commission, An Ageing Australia: Preparing for the Future, November 2013 at 201 http://www.pc.gov.au/__data/assets/pdf_file/0003/129747/ageing-australia-overview.pdf

[31] Grattan Institute, Balancing Budgets: Tough Choices We Need, November 2013 at 30 http://grattan.edu.au/static/files/assets/ceacf10a/801_Balancing_Budgets.pdf

[32] Advisory Panel on the Economic Potential of Senior Australians, First Report - http://epsa.treasury.gov.au/EPSA/content/publications/changing_face_of_society/default.asp

Intergenerational Report

The government has previously published an Intergenerational Report (IGR) in 2002, 2007 and 2010. These reports have proved instrumental in informing and focusing debate on the long-term challenges facing Australia and have assisted government and stakeholders in designing policy responses to these challenges.

The next IGR would appropriately update previous reports based on policy changes announced by the government, including:

- The impact of tax changes on retirement savings;
- The staged increase in the superannuation guarantee from nine per cent to 12 per cent; and
- The impact of Stronger Super and the Future of Financial Advice reforms on savings.

An Intergenerational Report in 2014 would also allow the government to publish modelling on current, significant issues. For example, the 2010 report concluded that lower projected Age Pension spending was partially as a result of:

- A decline in the proportion of pensioners receiving a full Age Pension, because of the increased value of individuals' superannuation and other private asset income; and
- The proportion of people with a part Age Pension is projected to increase significantly [by 2050] whilst the proportion of the eligible age group not receiving any Age Pension is projected to rise (only) slightly.[33]

No further analysis was provided in the 2010 report on the role of superannuation in minimising age-related cost pressures of future Budgets by reducing the number of retirees eligible for the Age Pension.

The FSC is of the view that the role that superannuation plays in improving the government's fiscal position over the long-term is not well understood by the community and undermines the stability of the retirement system. The Intergenerational Report could also be used to clarify the importance of the superannuation system to the long-term national accounts.

> **Recommendation 10:** The FSC recommends the government to publish an IGR in 2014 as a matter of priority.

[33] Intergenerational Report 2010 at 61

Recommendation 11: The FSC recommends the next IGR should provide detailed modelling of:

- The expected growth of funds in the superannuation system;
- The projected size of individuals' superannuation balance once the system is mature;
- The size of balances of Australians who will be fully or partially reliant on the Age Pension;
- The fiscal contribution superannuation makes to moving retirees from the full Age Pension to the part pension, or the part pension to no Age Pension; and
- The extent to which superannuation savings will fund other age-related expenses, such as health and aged-care costs, reducing individuals' overall reliance on the government in retirement.

Age Pension eligibility

The primary issue arising from the Age Pension at this point in time is whether people are appropriately receiving the pension based on the adequacy of their own personal wealth. Appropriate targeting of public benefits is becoming increasing important as a factor of budget sustainability. The FSC is concerned that the stability of the retirement system is being undermined by loose eligibility rules that enable individuals to receive pension payments whilst still owning substantial assets.

Research by Rice Warner Actuaries has recently demonstrated that there are over 850,000 retirees receiving a partial Age Pension, or 36 per cent of the total retiree population.[33] This rate was significantly increased when the government reduced the taper rates for the asset test for the Age Pension.[34]

When retirees become eligible for the part pension varies depending on the income test and asset test formulas. However, by way of example, it is unsustainable for a retired couple who own their own home, hold an additional $1 million in assets and receive an income of $60 000 per year to remain eligible to receive a partial Age Pension. This is in spite of the positive move in the 2009-10 Budget to increase the pension income test taper rate for income in excess of the income test free region.[35]

[34] 2006-07 Commonwealth Budget http://www.budget.gov.au/2006-07/ministerial/html/treasury-03.htm
[35] 2009-10 Commonwealth Budget http://www.humanservices.gov.au/customer/enablers/income-test-pensions

Chart I. Age Pension benefit impact of income and asset tests[36]

CATEGORY	ASSETS / INCOME	$0 / $0	$100,000 / $6,000	$200,000 / $12,000	$300,000 / $18,000	$400,000 / $24,000	$500,000 / $30,000	$750,000 / $45,000	$1,000,000 / $60,000
HOME OWNER	Individual	19,643	18,593	15,593	12,593	9,593	6,593	-	-
	Couple	29,614	29,614	23,330	26,830	24,349	20,449	10,699	949
NON-HOME OWNER	Individual	19,643	18,593	15,593	12,593	9,593	6,593	-	-
	Couple	29,614	29,614	23,330	26,830	25,830	23,830	15,964	6,214

Chart I reflects different levels of pension receipts by individuals and couples with varying levels of asset ownership and income.

Chart I demonstrates that individuals and couples, regardless of whether they own their own home or rent, are eligible to receive a partial Age Pension even where they have incomes and hold assets that the broader community would consider inappropriately high.

Recommendation 12: The FSC recommends the government conduct a review of whether the income and asset tests for the Age Pension are too generous and whether the long-term cost of the pension is sustainable.

Low Income Superannuation Contribution

The Low Income Superannuation Contribution (LISC) compensates employees for the 15 per cent contributions tax paid on their superannuation contributions when their adjusted taxable income is less than $37,000 per annum. Were those individuals not compelled to contribute 9.25 per cent of their income to superannuation, they would pay no income tax on the first $18,200 of their income, and 19 per cent tax on the next $18,800 of income, up to the $37,000 threshold.

It was a long-standing flaw in the superannuation system that low income earners would pay a higher rate of tax on their compulsory contributions than they would if that money was paid to them as income.

The FSC is concerned that for individuals with incomes less than $37,000 a contributions tax that is higher than the corresponding income tax rate acts as a disincentive for unemployed individuals to seek employment, considering it increases the effective marginal tax rate applying to employment income. Repealing the LISC will act as a savings disincentive for the 3.6 million low income Australian employees who currently benefit from this policy.

[36] RiceWarner, Super Revolution, Focusing on the Retirement Years, August 2012, page 11

The reintroduction of contributions tax for these employees is also inequitable and disadvantages those least able to afford the additional tax. Examination of the demographic characteristics of the working population who would be affected by the repeal of the LISC demonstrates that the repeal inequitably impacts young people and women.

The impact of removing the LISC for young people is significant as it undermines the benefits of compounding long-term growth that is central to the superannuation system achieving its goal of reducing reliance on government-funded retirement benefits. Contributions by young people early in their careers are as important to improving self-sufficiency in retirement as contributions made by mature individuals later in life who have achieved higher incomes.

It is also estimated that women are overwhelmingly the largest beneficiary of the LISC. Treasury has estimated that over 2.1 million Australian women will benefit from the LISC by over $500 million in 2013-14. It is widely acknowledged that women currently retire with at least 35 per cent lower superannuation savings than men. The FSC is concerned that the repeal of the LISC will unwind any progress made to close this gender gap.[37]

> **Recommendation 13:** The FSC recommends the government retain the LISC but 'pause' the policy for two years in alignment with the delay in the increase to the SGC announced before the election.

[37] Superannuation Savings Gap for Women at 30 June 2009, Rice Warner Actuaries, March 2010

Tax deductibility of financial advice

The Future of Financial Advice (FOFA) reforms commenced on 1 July 2013. In December 2013, the government announced plans to recalibrate the reforms.

The stated objectives of the FOFA reforms are to:

- Improve the quality of financial advice;
- Strengthen investor protection; and
- Underpin trust and confidence in the financial planning industry.

The FOFA reform package contains a number of wide-ranging measures to achieve these objectives. However, in a budgetary context, the FSC submits that the government should consider the additional measure of making the cost of financial advice tax deductible for consumers. We believe providing uniform deductibility of financial advice fees is central to the government's core objectives with respect to reforming financial advice regulation.

The uniform deductibility of financial advice fees would increase the accessibility and affordability of financial advice for more Australians and ensure existing tax distortions are removed. Maximising access to financial advice is important, as advice is integral to growing and protecting the wealth and retirement savings of individuals and families.

The FSC submits that a significant distortion arises from the current tax treatment of fees paid for financial advice provided by a financial adviser/planner. Currently, the cost of financial advice can be tax deductible if it is paid for on an ongoing basis – including instalment payment plans and dollar-based fee payments. Advice fees are not deductible where the advice is provided by a financial adviser/planner and the fee is paid for on an up-front basis (specifically, 'fee for service' arrangements which are the preferred payment method through the FOFA reforms and the preferred payment method by accountants who provide financial advice).

> **Recommendation 14:** The FSC recommends that payments for up-front financial advice should be tax deductible in addition to ongoing financial advice payments to mitigate distortions in the provision of financial advice that have arisen as result of existing tax arrangements.

We also note that from 1 July 2014 financial advisers/planners will be required to operate under the *Tax Agent Services Act 2009* (TASA) as tax (financial) advisers eliminating the arbitrary regulatory tax deductibility differences between the professional financial services provided by an accountant and those provided by a financial adviser/planner.

Given the current complexities and inefficiencies surrounding the deductibility of financial advice, the FSC would be pleased to assist the government in examining the true cost of making all financial advice tax deductible.

The FSC believes that simplistic estimates do not take account of the way advice is currently structured and paid for which could significantly over-estimate this cost.

Australia as a Global Financial Centre

Asia Region Funds Passport

The Asia Region Funds Passport (ARFP) will provide a multilaterally agreed framework that will allow the cross border marketing of funds across participating economies in the Asia region.

The ARFP and will have the following benefits:

- Funding growth and supporting the liquidity and diversity of the capital markets in the region;
- Improved efficiency and cost reduction;
- Cross border capital flows will provide fund managers access to larger savings pools and allow for greater economies of scale;
- Increased investor choice and ability to diversify, providing investors with access to otherwise inaccessible markets, investments and foreign expertise; and
- Growth of funds management jobs and expertise in the region.

In the longer term, a commonly agreed funds management regulatory framework could also facilitate funds from the Asian region being marketed in Europe by way of an Asian/European mutual recognition agreement.

All Asian-region APEC member economies are likely to gain immediate benefits from participating in the Asia Region Funds Passport.

Australian Government's activities

On 20 September 2013 Australia, along with Korea, Singapore and New Zealand, committed to the development of a pilot program for the ARFP, formalising the commitment during a signing ceremony between the nations at the APEC Finance Ministers' Meeting in Bali, Indonesia. The pilot program is intended to start in 2016.

The FSC regards the ARFP as a critical initiative for the Australian financial services industry as it provides a unique opportunity with the potential to contribute to significant economic growth. In addition, the ARFP has the potential to significantly increase exports of Australian financial services products.

FSC's activities

The FSC has been working closely with industry associations in the region over this period to build on their support and encourage them to raise the importance of the Passport at a political and regulatory level in their jurisdiction. The FSC continues to provide ongoing advice to Treasury and ASIC on technical matters.

The FSC also intends to lead study tours to participating jurisdictions for Australian industry participants to learn about these markets, and will reciprocate for foreign study tours travelling to Australia.

Recommendation 15: The FSC recommends the government maintain its commitment to the ARFP.

Collective Investment Vehicles

The government has recognised the importance of both a wider range and more flexible Collective Investment Vehicles (CIVs) following recommendations made in the report of the Australian Financial Centre Forum (AFCF).[38] Under Recommendation 3.3 the AFCF recommended, "that the Treasurer request the Board of Taxation to review the scope for providing a broader range of tax flow through collective investment vehicles".

On 11 May 2010, the then-Assistant Treasurer and the then-Minister for Financial Services, Superannuation and Corporate Law announced that the government would ask the Board of Taxation to review the tax treatment of CIVs, having regard to the new Managed Investment Trust (MIT) tax framework and including whether a broader range of tax flow-through collective investment vehicles should be permitted. The Board of Taxation completed its review of the tax arrangements applying to CIVs and provided its report to the Assistant Treasurer in December 2011. The government has not yet released this report.

One aspect of the Board of Taxation's review of the tax arrangements applying to CIVs is a review of an Investment Manager Regime (IMR) for foreign managed funds. The then-Assistant Treasurer requested that this aspect be brought forward and the report was completed on 30 September 2011. The report and the government's response to it were released on 16 December 2011.

Critically, the Board of Taxation's consideration of an IMR for foreign residents beyond foreign managed funds was not brought forward. This important aspect remains in the unreleased Board of Taxation report on CIVs.

[38] Australian Financial Centre Forum's Report on Australia as a Financial Centre (the Johnson report), released January 2010.

The need for broadening allowable investment vehicles

The preferences of international investors are a critical consideration for Australia to develop into an international financial services centre.

Many foreign investors (even though they may reside in a Double Tax Treaty country) do not come from a common law jurisdiction. Consequently, these investors are not familiar with the trust investment structure used by Australian fund managers. Often foreign investors prefer to invest in a CIV which has either a contractual basis (e.g. an Irish common contractual fund) or is a corporate entity (e.g. a Luxembourg SICAV).

Allowing Australian-based fund managers to service these clients from Australia through the establishment of alternative flow-through vehicles, particularly for non-resident investors, will reduce the need for them to establish off shore CIVs for these clients in competing jurisdictions.

To facilitate this change, the FSC recommended to the Board of Taxation that the elective provisions applying to MITs should not be limited to unit trusts. Instead any legal entity that meets the prescribed prerequisite conditions should be eligible to elect, irrevocably, into the new CIV regime. Once such an entity has elected into the regime the features normally associated with MITs, such as transparency, flow through and deemed capital status, would apply regardless of how that type of entity might normally be treated for tax purposes.

By allowing such flexibility, Australian managers would be able to develop products that suited particular overseas jurisdictions. The preferred style of CIV may differ from country to country and, indeed, may even vary within a country depending upon the type of investment. Such flexibility provides a degree of protection against future developments that may result in unit trusts falling out of favour with Australian or foreign investors.

Additionally, by allowing other types of entity within the MIT regime it may be possible to overcome the deficiency that many Double Tax Agreements do not afford recognition to trusts and other tax transparent entities that are not the beneficial owner of the investments. In this regard, many investors ultimately reside in countries with which Australia has a Double Tax Agreement, but prefer to invest via a CIV for commercial reasons. For example, they may not themselves have sufficient capital or expertise to directly invest in assets outside their home jurisdiction.

Cost to revenue

Importantly, the FSC does not see that there should be any cost to revenue as a result of this policy initiative. The new activity generated by allowing additional legal entities to have the benefit of the existing MIT regime will predominantly come from two sources:

- Newly established Australian entities that would have otherwise set up as a unit trust and taken advantage of the MIT regime; and
- Investment vehicles that would otherwise have been set up in a foreign jurisdiction (such as Luxembourg or Ireland).

The FSC fully supports inclusion of the necessary integrity measures to ensure that this policy objective is met at no cost to revenue.

It should be noted that the objective of this policy is to increase Australia's competitiveness as a global financial centre. As discussed in the AFCF report, Australia is currently at a competitive disadvantage to those jurisdictions offering a suite of CIVs, resulting in employment in fund administration, accounting, legal, custody and other services being lost to these jurisdictions. By broadening the allowable legal entities for CIVs over time these services will be provided in Australia and government revenue will benefit from flow on effects through increased employment and business activity. A broader range of CIVs will also be critical to the success of the Asia Region Funds Passport.

Inclusion of CIVs in the Investment Manager Regime

The Government's Investment Manager Regime ("IMR") has been limited to foreign managed funds.

Broadly the features of a foreign managed fund in the existing regime are:

- Not an Australian tax resident;
- Widely held;
- Undertakes passive investment; and
- Does not carry on or control a trading business in Australia.

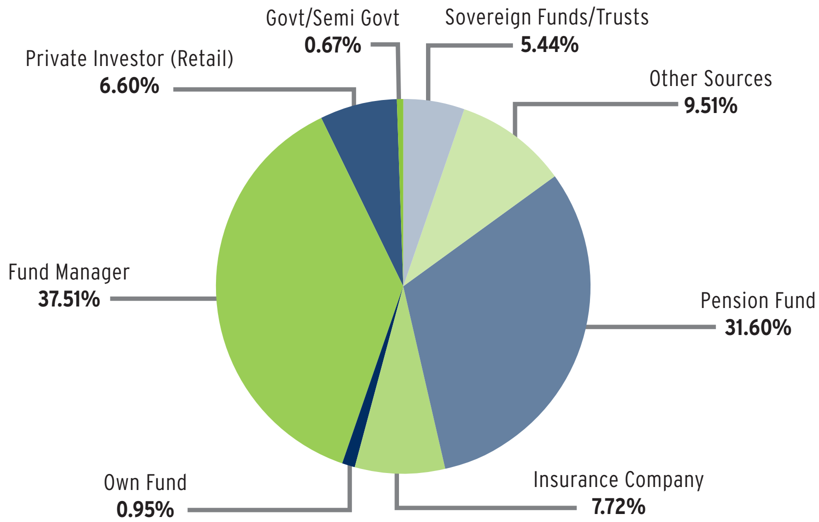
These features exclude other types of CIVs from receiving the benefit of the IMR.

Critically, pension and sovereign wealth funds are excluded from this definition. In a recent study by the FSC and The Trust Company[39] foreign pension and sovereign wealth funds were found to contribute over one third of flows into Australian MITs as at 31 December 2013. For Australia to capitalise on this significant export opportunity for the funds management industry it will be necessary to broaden the IMR for foreign residents beyond foreign managed funds to also include pension and sovereign wealth funds.

[39] 2013 Australian Investment Managers Cross Border Flows Report, December 2013, FSC & The Trust Company

Chart J provides more detail on the breakdown of fund flows into Australia at 31 December 2012 by investor type.

Chart J. Cross Border MIT Investment in Australia by Investor Type at 31 December 2012



Recommendation 16: The FSC recommends the Government releases the Board of Taxation's report into the taxation arrangements applying to CIVs, and prioritises the implementation of a broader range of tax flow-through CIVs, to allow Australian based fund managers to compete internationally.

Managed Investment Trust Withholding Tax Rate

As part of the broader strategy to develop Australia as a regional financial services centre, in the 2008-09 Budget the Treasurer announced that the MIT withholding tax (MIT WHT) rate would be reduced from 30% to 7.5%, on certain distributions from Australian MITs to foreign resident investors.

As discussed earlier, this decision was reversed in the 2012-13 Budget, where the MIT WHT rate was doubled to 15% from July 2013.

The decision to double the MIT WHT to 15 per cent in the 2012-13 Budget created an arbitrage opportunity whereby foreign investors can naturally now choose to invest via debt structures, instead of equity, to reduce their tax liability as the Interest Withholding Tax rate is currently 10 per cent. In reality the forecast revenue to be collected at the proposed 15 per cent rate is unlikely to be realised as a result of this arbitrage.

The implication of less investment in equity is considerable given the current economic context and raises significant competitive issues for large property and infrastructure projects. Investment in debt is inconsistent with the deleveraging that has been occurring in Australia and across the world. International credit markets are strained and domestic banks are attempting to reduce their reliance on foreign fund raising.

The FSC understands the need to be pragmatic given the government's fiscal constraints. Whilst the FSC does not support the increased rate as a matter of policy, a MIT WHT rate of 10% would have the following benefits:

- Consistent with long term capital gains tax paid by superannuation funds (noting that superannuation funds pay no tax in pension phase). This ensures that domestic institutional investors are treated consistently with similar foreign investors; and
- Aligns the MIT WHT rate with the Interest Withholding Tax rate, removing the incentive to structure around the MIT rate.

> **Recommendation 17:** The FSC recommends the government reduce the Managed Investment Trust withholding tax rate on fund payments to 10%.

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