



# Commonwealth Budget 2025-26

FSC Pre-Budget Submission

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## 1 Executive Summary

The Financial Services Council (FSC) represents Australia's investment managers, superannuation funds, investment platforms and financial advice businesses, collectively responsible for investing more than \$3 trillion on behalf of over 15.6 million Australians. As one of the largest contributors to the Australian economy, the financial services industry plays an essential role in achieving sustainable economic growth, delivering secure employment, and improving standards of living for all Australians.

### **A reform agenda for productivity and growth**

It is essential that the 2025-26 Budget sets the groundwork to implement policies that will strengthen Australia's domestic economy and drive our future prosperity and well-being. The financial services industry has developed a priority reform agenda for the next term of government, which has the potential to significantly improve the competitiveness of the sector and contribute to economic growth and long-term Budget stability.

In this Budget, we encourage the Government to embrace a reform agenda to:

- 1. Promote investment and economic growth**
- 2. Make Australia's tax system more efficient**
- 3. Reduce and streamline regulation**

To achieve these goals, the FSC has proposed a range of reform initiatives, supported by economic modelling that demonstrates implementing the industry's policy recommendations has the potential to generate:

- an additional \$19 billion in GDP over the next decade;
- almost \$2 billion a year in increased export revenue for the financial services sector by attracting additional capital into Australia; and
- a combined \$800 million a year increase in the sector's productivity through reducing costs, lowering fees and increasing returns to consumers.

This Budget can ensure Australia is well placed to experience future growth and improvements in productivity led by the private sector. Adopting these priority initiatives in 2025-26 would establish the financial services sector as a means of maintaining and promoting the financial wellbeing and future prosperity of all Australians while reducing fiscal pressure on the Budget over the long-term.

### **Achieving Australia's potential in financial services**

Australia is well placed to increase the attractiveness and competitiveness of the financial services sector and take advantage of the significant unrealised potential to expand our role as a global and regional centre for financial services.

Despite our sophisticated domestic investment industry and management fees that are attractive by global standards, Australia falls behind other leading global and regional financial centres in rankings of competitiveness. While global peers such as Singapore export 78% of funds under management, Australia currently exports only 6.5%, indicating substantial potential benefits can be realised from policy and regulatory reform.

In addition, the financial services industry recognises the importance of holistic and evidence-based tax reform to re-invigorate growth in the Australian economy. We encourage the Government to conduct a meaningful review of current tax settings, recognising that a mature tax reform debate requires all options to be left on the table, including taxes on superannuation, the company tax rate and the GST. A strategic approach to tax reform is preferable to piecemeal initiatives, particularly in superannuation,

where stable policy settings are required to maintain confidence in the system. A review can also ensure Australia remains a globally competitive destination for investment by addressing the level of our company tax rates compared with the OECD average.

There is also a need to continue to implement policies aimed at making financial advice affordable and accessible to more Australians. Without reform to reverse the dramatic decline in professional financial advisers and encourage further investment in advice businesses, there will be insufficient capacity to help the 2.5 million Australians who will retire over the next ten years with decisions on their financial future.

Implementing the recommendations outlined in this submission will ensure the financial services sector is in a strong competitive position to contribute to the prosperity and financial wellbeing of all Australians.

## 2 FSC Recommendations for the 2025-26 Budget

### Commit to a regulatory reduction and regulatory streamlining agenda

#### **Simplify the Breach Reporting (Reportable Situations) framework**

- Breaches which do not result in financial loss or damage to the consumer should be exempted from the breach reporting regime.
- Government should work with ASIC to improve the ASIC Portal.

#### **Allow for rationalisation of legacy superannuation and managed investment products**

- Introduce a product modernisation mechanism that provides rollover relief from capital gains tax and ensures the continuation of social benefit entitlements.
- This would enable closure of legacy products and facilitate consumers moving into more modern, higher-performing, lower-cost products.

#### **Promote competition in the superannuation market**

- Consumer choice and competition should be promoted in the superannuation and retirement income market.
- As part of the ongoing review of the Your Future, Your Super performance test and the ongoing consultation into retirement phase policy, proposals should recognise the different types of superannuation products and the role of personal financial advice in delivering good outcomes for customers:
  - Avoid inappropriate expansion of the Your Future, Your Super performance test.
  - Ensure appropriate application of retirement phase policy to choice products and superannuation platforms, where consumers make active decisions, often with financial advice, that distinguishes them from default products.
  - Ensure the preservation of competition and choice for consumers in retirement products to support the growth of innovative retirement income solutions.
  - Recognise that consumers who are more engaged and have the confidence to spend more of their balance will have better outcomes in retirement.

#### **Introduce a product labelling regime for sustainable and responsible investments**

- Prioritise developing a sustainable product labelling regime.
- The framework should allow for a wide range of financial products and be capable of application to diverse strategies and approaches to sustainable and responsible investment.

#### **Provide a level playing field under the foreign investment framework**

- Provide a level playing field for Australian domiciled global fund managers by exempting trusted investors making low-risk investments from the FIRB regime.
- The decision to double FIRB application fees should be reversed for low-risk investors.

#### **Reform education requirements for financial advisers**

- Increase the pool of relevant providers by updating the education standard and introducing new core areas of essential knowledge for new entrants and additional elective knowledge areas.
- Develop appropriate pathways for the proposed new class of adviser to become relevant providers over time should be considered.

#### **Reduce uncertainty with Design and Distribution Obligations (DDO) compliance**

- Government should consult with industry on technical changes to the law to address compliance challenges, so industry can obtain greater clarity on the scope of the obligations and to ensure greater product choice for consumers is not being inadvertently reduced.

### **Implement an Australian Digital ID scheme**

- Implement a Digital ID system in Australia that streamlines existing regulatory requirements while providing a secure identity verification service for Australians.

## **Undertake a review of the tax system**

### **Undertake a holistic tax reform agenda**

- The Government should undertake a holistic review of the design of the current tax system, considering the most effective tax policy settings to support Australia's continued economic growth and long-term prosperity while ensuring a stable and equitable revenue base.
- Key reform principles include:
  - Lowering corporate tax rates to make Australia internationally competitive;
  - Rebalancing the composition of tax as part of a holistic reform package that includes eliminating inefficient state taxes and considering appropriate consumption tax rates;
  - Improving Australia's competitiveness as a global financial centre; and
  - Ensuring fairness and certainty in superannuation tax settings.

### **Commit to stable superannuation tax and policy settings**

- A stable policy environment will ensure the superannuation system remains focused on its core purpose: growing Australians' savings to deliver a secure and dignified retirement.

## **Boost productivity and growth**

### **Promote Australia as a regional and global financial centre**

- Implement low complexity and revenue-neutral measures to improve competitiveness as a priority including:
  - Extending the period for start-up funds to qualify as a managed investment trust to five years;
  - Improving tax rules for foreign exchange hedging;
  - Introduce a rollover regime for the Corporate Collective Investment Vehicle; and
  - Simplifying withholding tax for Asia Region Funds Passport funds.

### **Implement an investment component in the National Innovation Visa**

- Include an investor stream within the new National Innovation Visa, modelled on the former Significant Investor Visa.

### **Increase access to quality, affordable financial advice**

- Finalise implementation of the Quality of Advice Review to grow jobs in the financial advice sector and make it easier for Australians to access affordable advice.
- Reforms should also consider the role of digital advice solutions to complement person-to-person advice.

### **Restore reduced input tax credits on advice fees**

- Amend legislation to restore reduced input tax credits for superannuation funds and platforms on GST paid for financial advice to make advice more affordable to consumers.

## 3 Commit to a regulatory reduction and regulatory streamlining agenda

### 3.1 Simplify the Breach Reporting (Reportable Situations) Framework

The breach reporting regime still requires numerous minor or technical breaches to be reported, even where they do not cause any customer loss, placing increasing strain on ASIC and industry resources without commensurate investigatory intelligence for the regulator. Current relief is unduly narrow. In addition, the ASIC Portal for submitting breaches requires material improvement and redesign.

The FSC estimates that simplification of the breach reporting regime will save businesses \$183 million in net compliance costs over 10 years, and 34,000 hours a year that could instead be deployed into resolving more consequential breaches faster.

**Recommendation:** Breaches which do not result in financial loss or damage to the consumer should be exempted from the breach reporting regime.

The government should work with ASIC to improve the ASIC Portal.

### 3.2 Allow for rationalisation of legacy superannuation and managed investment products

Superannuation funds and fund managers face significant barriers when transitioning consumers from legacy investment products to more modern, efficient alternatives. These barriers primarily stem from tax implications, particularly Capital Gains Tax (CGT), which is triggered when consumers move out of older products. Additionally, transitioning may affect social benefit entitlements, further discouraging consumers from switching to better-performing products. As a result, consumers remain 'locked' in higher-cost, lower-performing products.

Implementing a product modernisation regime that mitigates these tax and social benefit consequences would significantly enhance consumer outcomes. By 2050, such a regime is projected to deliver an additional \$16 billion to consumers' retirement savings, increasing collective retirement incomes by \$22 billion. The framework would also yield fiscal benefits for the government, including increased tax revenues from higher net investment returns and a reduction in social benefit payments.

**Recommendation:** Introduce a product modernisation mechanism that provides CGT rollover relief and ensures the continuation of social benefit entitlements. This would enable the closure of legacy products and facilitate the movement of consumers into more modern, higher-performing, and lower-cost products.

### 3.3 Promote competition in the superannuation market

As the superannuation system has evolved, regulation has been default-centric. This has failed to recognise different levels of customer engagement, particularly for those who are more engaged and exercise various degrees of choice of superannuation products. Default-centric regulation, which displaces legitimate consumer choices and consumers' financial advisers, works against Australians being engaged with their retirement. This trend can be seen:

- from proposals to extend the performance test to choice products, where a consumer has made an active choice on the basis of receiving financial advice;

- with the implementation of the Retirement Income Covenant, where regulators have suggested the Trustee should be providing advice to customers about their retirement in circumstances where that customer already has professional personal advice; and
- in proposals that call for the defaulting of consumers into retirement products, the testing of retirement products like default MySuper products, or the setting up of default retirement products, which would limit consumer engagement and choice.

The superannuation system should be built on the principle of encouraging consumers to be engaged with their superannuation and make active choices that suit their individual needs. Consumers should be provided with tools, guidance, and where required, access to affordable advice to help them make individual decisions for their specific circumstances.

**Recommendation:** Government policy should promote consumer choice and competition in the superannuation and retirement income market. As part of the ongoing review of the Your Future, Your Super performance test and the ongoing consultation into retirement phase policy, proposals should recognise the different types of superannuation products and the role of personal financial advice in delivering good outcomes for customers:

- Avoid inappropriate expansion of the Your Future, Your Super performance test.
- Ensure appropriate application of retirement phase policy to choice products and superannuation platforms, where consumers make active decisions, often with financial advice, that distinguishes them from default products.
- Ensure the preservation of competition and choice for consumers in retirement products to support the growth of innovative retirement income solutions.
- Recognise that consumers who are more engaged and have the confidence to spend more of their balance will have better outcomes in retirement.

### 3.4 Introduce a product labelling regime for sustainable and responsible investments

Consumers are increasingly demanding investment products that align with their personal values, and there is a need for greater clarity and consistency in sustainable investment product labels.

Noting that sustainable investment themed products have been developed based on a range of different objectives and methodologies, the focus should be on informing investor decisions and ensuring claims are well understood and not misleading. This will assist investors in understanding products in the market and enable them to make informed decisions on how to invest in line with their preferences or goals.

A consistent product labelling framework will provide regulatory certainty to product issuers and encourage the growth of investment products with sustainability-related or ethical-themed investment strategies, meaning greater choice for consumers to invest in alignment with their values and greater capital flow to meet Australia's net zero and sustainability goals.

If Australia were to return to the trend of fund flows before the drop following recent regulatory uncertainty, this could lead to at least an additional \$3.2 billion in capital each year flowing into the sustainable and responsible investments sector.

**Recommendation:** Prioritise developing a sustainable product labelling regime. The framework should allow for a wide range of financial products and be capable of application to diverse strategies and approaches to sustainable and responsible investment.

### 3.5 Provide a level playing field under the foreign investment framework

To make Australia a more attractive investment destination, it is essential to streamline foreign investment review processes. Foreign Investment Review Board (FIRB) clearance currently needs to be obtained for most routine, passive investment activities by global funds, with several minor exceptions. These investments do not pose a national security risk, while policy barriers deter investment in Australia and discourage the exploration of more active, larger-scale investment projects.

The Government recently implemented an improvement by exempting interfunding arrangements (transactions within a fund or its related entities) from the FIRB clearance process. While this represents much needed progress, it is essential for more comprehensive measures to be put in place to resolve barriers to routine passive investing transactions – many of which involve investments being made for Australian investors. High fees associated with FIRB applications also deter foreign investment, and are not appropriate where applicants are low-risk or the investments are clearly in the public interest.

**Recommendation:** At present, regulatory barriers create unnecessary obstacles to global fund managers who set up operations in Australia, and invest on behalf of Australians, which has adverse impacts on the Australian economy.

- The Government should provide a level playing field for Australian domiciled global funds under the FIRB regime by exempting trusted investors who are fiduciaries for Australians' savings.
- The Government should reverse the decision to double fees on FIRB applications for low-risk investors to prevent the further stifling of investment.

### 3.6 Reform education requirements for financial advisers

The current education requirements for financial advisers are unduly prohibitive to new entrants, exacerbating the shortage of financial advisers. Most young people at university study a generalist degree such as commerce, business, or economics, but have competency in some topic areas that are relevant to financial advice. The pathway to becoming a financial adviser should not be limited to people who have completed a financial planning degree and instead should be flexible enough to accommodate new entrants and career changers by having elements of their pre-existing degree courses recognised, while maintaining appropriate qualification levels to ensure consumer protection.

Appropriate pathways should also be developed for the proposed new class of adviser, under the second tranche of reforms in response to the Quality of Advice Review, to become relevant providers over time. Reforming the education requirements could increase the future supply of advisers, which could lead to lower growth in costs in advice, which have increased by 58% between 2018 to 2023.

**Recommendation:** Increase the pool of relevant providers by updating the education standard and introducing new core knowledge areas for new entrants and additional elective knowledge areas.

- The core areas should represent essential knowledge for financial advisers, such as: commercial law, taxation, financial advice regulatory and legal obligations, ethics and professionalism and behavioural finance.
- This proposal would ultimately support people from other professional backgrounds such as stockbrokers and accountants pursuing a career change to meet the education standards.
- The development of appropriate pathways for the proposed new class of adviser to become relevant providers over time should also be considered.

### 3.7 Reduce uncertainty with Design and Distribution Obligations (DDO) compliance

The DDO has been in operation for 3 years now, however it presents some practical challenges for financial services businesses, due to its broad scope. Some examples include:

- Uncertainties regarding the “reasonable steps” obligations are causing fund managers to withdraw from the retail market, leading to lower choice for unadvised and retail consumers.
- DDO “distribution conditions” are mandatory in ASIC’s view, but this has resulted in practical difficulties for financial services businesses drafting distribution conditions for vanilla products such as exchange traded products (ETFs).
- DDO applies to all forms of “retail product distribution conduct”, when arguably some of these types of conduct (such as merely providing Product Disclosure Statements (PDSs) to retail clients) should not have been captured.
- While DDO does not apply to “excluded conduct”, the definition of excluded conduct is arguably too narrow and acts as an unnecessary cost to the financial advice process.

**Recommendation:** Government should consult with industry on technical changes to the law to address compliance challenges, so industry can obtain greater clarity on the scope of the obligations and to ensure greater product choice for consumers is not being inadvertently reduced.

### 3.8 Implementation of a Digital ID Scheme in Australia

Work has commenced on the implementation of a cross-government digital identity verification service which will help organisations that need to cite identity data to do so without the need to collect and keep identity documents. Application of a digital ID in the financial services sector would result in benefits for consumers and businesses including:

- **Time savings for consumers** from no longer needing to provide certified or uncertified proof of ID for transactions such as loan and credit applications. This could be worth over \$256 million a year based on Australia’s adult population making one transaction requiring proof of ID every five years and the 115 minutes time saving cited in the Department of Prime Minister and Cabinet’s report.
- **Fraud reduction benefits for consumers.** ID fraud is estimated to cost Australians over \$3.6 billion each year. If just a 5 per cent reduction in fraud costs could be achieved, this would save Australians \$182 million a year.
- **Productivity gains for financial services businesses** resulting from a reduction in the manual processing and handling of ID checks. A 10-minute saving per transaction requiring ID checks (based on Australia’s adult population making one transaction, requiring proof of ID, every five years) could result in productivity gains of \$102 million a year for the sector.

**Recommendation:** Implement a Digital ID system in Australia which streamlines existing regulatory requirements while providing a secure identity verification service for Australians.

## 4 Undertake a review of the tax system

Tax reform has the capacity to reinvigorate growth in the Australian economy through increased productivity and capital investment. The financial services industry supports a holistic, evidenced-based tax review which genuinely considers all options for reform as part of a mature policy debate.

### 4.1 Undertake a holistic tax reform agenda

The last comprehensive review of Australia's tax system was held in 2015, and the financial services industry supports tax policy settings being re-evaluated to identify areas for reform to promote Australia's long-term prosperity.

Important considerations include the appropriateness of the overall tax burden and levels of government spending, as well as examining the relative efficiency and distribution of taxes. It should examine Australia's reliance on direct taxes, including an internationally uncompetitive company tax rate and increasingly onerous personal income taxes, along with opportunities to remove inefficient state taxes.

**Recommendation:** The incoming government should commit to a holistic review of the design of the current tax system, to consider the most effective tax policy settings to support Australia's continued economic growth and long-term prosperity and ensure a stable and equitable revenue base.

Some key principles for broader systemic tax reform include:

- Lowering corporate tax rates to make Australia internationally competitive;
- Rebalancing the composition of tax as part of a holistic reform package that includes eliminating inefficient state taxes and considering appropriate consumption tax rates;
- Improving Australia's attractiveness and competitiveness as a global financial centre; and
- Ensuring fairness and certainty in superannuation tax settings, taking into account concessional rates, the preservation age and aged pension eligibility.

### 4.2 Commit to stable superannuation tax and policy settings

Superannuation is a cornerstone of Australia's retirement system, providing millions of Australians with financial security and a dignified retirement. Confidence in the system is being eroded by frequent changes to its tax settings. Tax increases by successive governments, including the introduction of the transfer balance cap, Division 293 tax on high-income earners, regular changes to contribution caps, and more recently, the proposed Division 296 tax on high balances, have created uncertainty for consumers and cost and complexity for the industry.

Piecemeal tax changes generate poor policy design, such as the proposed application of the Division 296 tax on unrealised gains, taxing Australians on the increase of the value of assets they have not yet sold. When Australians contribute to their retirement by saving through superannuation, they do so with the expectation that tax policy settings will be fair and broadly stable.

The FSC supports reviewing superannuation tax settings as part of a government tax review, but in the absence of a holistic, evidence-based process, the FSC recommends that no changes are made to the taxation of superannuation.

**Recommendation:** Commit to consistent and stable policy and tax settings for superannuation, ensuring the system remains focused on its core purpose: growing Australians' savings to deliver a secure and dignified retirement.

## 5 Boost productivity and growth

A proactive productivity and growth agenda for the financial services industry will support the expansion of the Australian financial services sector as a hub in the Asia-Pacific, encouraging the inflow of overseas capital that can be directed to Australian businesses, and grow the financial advice industry.

### 5.1 Promote Australia as a regional and global financial centre

Australia has significant potential to expand its role as an exporter of financial services to the Asia-Pacific region and the world. Complex and uncompetitive tax settings are a key barrier to the export of Australian funds management expertise, and limit our potential as a regional and global financial centre. In order to achieve the full benefit of Australia's expertise in funds management services, the attractiveness and competitiveness of Australia as an investment destination must be improved.

Australia's funds management sector currently manages over \$3.9 trillion worth of assets (in managed funds). Of this, only \$170 billion is managed on behalf of overseas investors. This is relatively small when compared to global financial centres such as Singapore where nearly 80 per cent of funds under management (FUM) are managed on behalf of overseas investors.

Increasing the attractiveness of Australia as a destination for funds under management through tax reforms, amongst other initiatives, would allow Australia's funds management sector to compete more effectively and grow into a major global financial services centre.

A doubling of funds managed on behalf of overseas investors from \$170 billion to \$340 billion would result in an additional \$1.9 billion a year in direct revenue for the sector and significant indirect benefits for Australia's economy.

**Recommendation:** Implement low complexity and revenue-neutral measures to improve competitiveness as a priority, including:

- **Modify rules for start-up funds to qualify as a managed investment trust (MIT) by extending the existing qualification timeframe to five years:** Under the current rules, a fund needs to meet the widely held and not closely held tests within two years to qualify. In practice, it can take five to six years for a fund to become established. Failure to qualify is a material risk to investors, discouraging early entry and further limiting funds' ability to meet the requirements. An extension can be balanced with stricter additional active marketing requirements to ensure that only funds intending to qualify will benefit from tax concessions.
- **Improving rules for tax treatment of foreign exchange hedging:** complement deferred amendments to the TOFA rules for foreign exchange hedging to provide easier access to existing hedging rules and better match the gains and losses of hedges with those of their underlying assets.
- **Introduce a rollover regime for the Corporate Collective Investment Vehicle (CCIV):** Transitional arrangements should be implemented to allow existing MITs to transfer into the CCIV regime without attracting substantial tax liabilities. This would promote increased uptake by allowing existing funds to consolidate into the regime. A post-implementation review of the CCIV framework should also be undertaken to identify further opportunities to remove tax disincentives for adopting the structure.
- **Simplify withholding tax for all payments by passport funds such as applying a single 5 per cent rate:** Among participants in the Asia Region Funds Passport (ARFP), Australia's complex withholding tax rules are a barrier to competitiveness. While resulting in similar tax outcomes in practice, the complex system of different tax rates and exemptions result in high compliance costs and a perception of being a higher-taxing jurisdiction. This system creates additional administration issues for foreign investors and operates differently to withholding tax regimes in other jurisdictions, which generally apply a single tax rate to distributions.

## 5.2 Implement an investment component in the National Innovation Visa

The new National Innovation Visa (NIV) has the potential to deliver significant benefits for Australia, including nation-building investments in venture capital and start-ups, renewable energy, sustainable finance, healthcare infrastructure, and advanced manufacturing.

Analysis suggests the inclusion of an investment stream in the NIV could provide billions in future investments over the next decade, supporting key government priorities and encouraging venture capital investment.

Since its inception in 2012, the former Significant Investor Visa (SIV) contributed over \$15 billion in complying investments and significantly more in additional investment. This was in return for only 300 primary visas annually, representing around 0.17% of Australia's annual migration intake. The independent Parkinson Review commissioned by the Government acknowledged the SIV had clear economic benefits and could be retained in a targeted way to support innovative investments and venture capital.

**Recommendation:** Include an investor stream within the new National Innovation Visa, modelled on the former Significant Investor Visa.

## 5.3 Increase access to quality, affordable financial advice

Financial advice in Australia remains unaffordable for most Australians, in many cases exceeding \$5,000. This is the result of regulatory red tape and costs that do not enhance the customer experience.

Following the Quality of Advice Review, reforms are being progressed which remove unnecessary costs from the advice process, permit new models of advice and make it easier for customers to access simple advice at an appropriate cost.

**Recommendation:** Noting its announcement around the Delivering Better Financial Outcomes Tranche 2 reform package, the Government should commit to finalising the implementation of the Quality of Advice Review to grow jobs in the financial advice sector and make it easier for Australians to access affordable financial advice. Reforms should also consider the role of digital advice solutions to enhance efficiency, lower cost, and complement the provision of person-to-person advice.

## 5.4 Restore reduced input tax credits for financial advice

Following guidance released in December 2023, the ATO's current interpretation of the law is that funds and platforms are not eligible to claim reduced input tax credits (RITCs) as they are viewed as not being recipients of the supply of advice for GST purposes. This position is contrary to previous indications, including in private rulings. The change means funds and platforms cannot continue the long-standing practice of passing the benefit on to consumers, leaving them up to 7.5 per cent worse off.

**Recommendation:** Government should amend legislation to restore RITCs for superannuation funds and platforms on GST paid for financial advice. This would recognise funds and platforms as recipients of advice for GST purposes and clarify the availability of tax credits for GST on fees paid on behalf of consumers. This could be achieved as part the financial advice reform package or as part of a separate Bill.