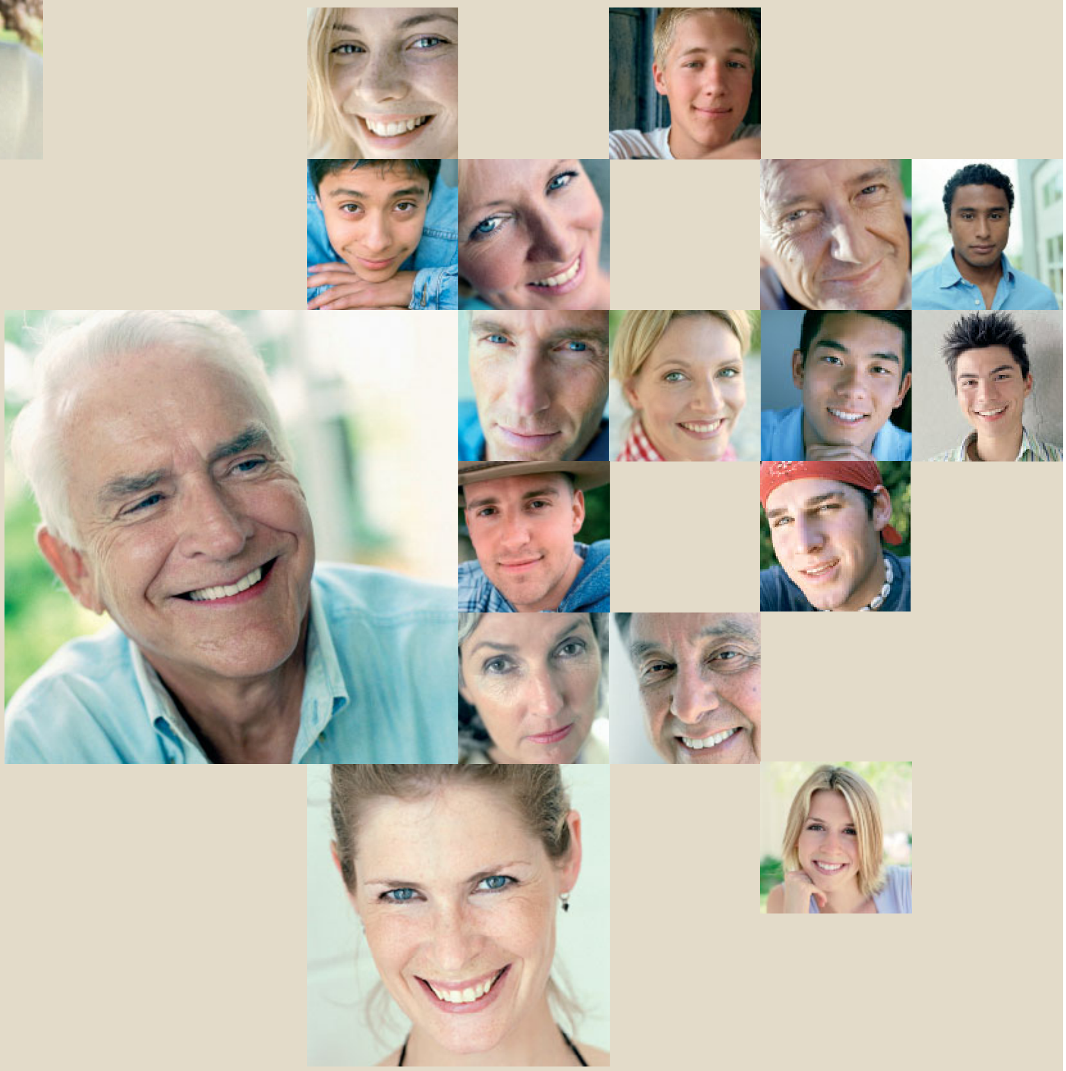
Australian Government

A plan to simplify and streamline superannuation

9 May 2006



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A plan to simplify and streamline superannuation

The Government is proposing a plan to sweep away the current raft of complex tax arrangements and restrictions that apply to people's superannuation benefits. This would improve retirement incomes and increase incentives to work and save.

Under the proposed plan, from 1 July 2007:

- Superannuation benefits paid from a taxed fund either as a lump sum or as an income stream such as a pension, would be tax free for people aged 60 and over.
  - Benefits paid from an untaxed scheme (mainly public servants) would still be taxed, although at a lower rate than they are now for people aged 60 and over.
- Reasonable benefit limits (RBLs) would be abolished.
- Individuals would have greater flexibility as to how and when to draw down their superannuation in retirement. There would be no forced payment of superannuation benefits.
- The concessional tax treatment of superannuation contributions and earnings would remain. Age-based restrictions limiting tax deductible superannuation contributions would be replaced with a streamlined set of rules.
- The self-employed would be able to claim a full deduction for their superannuation contributions as well as being eligible for the Government co-contribution for their personal post-tax contributions.
- The ability to make deductible superannuation contributions would be extended up to age 75.
- It would be easier for people to find and transfer their superannuation between funds.

To increase further the incentives to save for retirement it is proposed to halve the pension assets test taper rate to $1.50 per fortnight from 20 September 2007.

The superannuation preservation age would not change. The preservation age is already legislated to increase from 55 to 60 between the years 2015 and 2025. People would still be able to access superannuation benefits before the age of 60, although they would continue to be taxed on their benefits under new simplified rules.

Fewer decisions for retirees*

CURRENT

Income stream

Different tax and social security treatment depending on type of income stream

Keep money in super until age 65
but
must take super at age 65+ if not working

Lump sum

Up to 8 components with different tax rates

PROPOSED

Income stream

No tax and consistent assets test treatment

Can keep money in super

Lump sum

No tax on lump sum

*Person aged 60 or over and benefits paid from a taxed fund

Easier to understand how benefits are taxed*

CURRENT	
Lump sum	
Pre-July 1983	5% at MTRs
Concessional	5% at MTRs
Undeducted contributions	Exempt
Post-June 1994 invalidity	Exempt
Capital Gains Tax exempt	Exempt
Non-qualifying	Marginal rates
Post-June 1983	0% to threshold then 15%
Excessive	38%

Income Stream

Marginal tax rates

Less deduction for personal contributions

Less maximum 15% pension rebate

PROPOSED

NO TAX

*Person aged 60 or over and benefits paid from a taxed fund

Save more without losing your age pension

CURRENT**

Assets test taper rate

$3.00

50 per cent assets test exemption for specific income streams

PROPOSED**

Assets test taper rate

$1.50

Consistent treatment of all assets

** Excludes the family home

Complexity needs to be reduced

Australia's superannuation system has become increasingly complex as a result of changes that have occurred over the last two decades. This confuses retirement decisions, clouds the incentive to invest in superannuation and imposes unnecessary costs.

The Government is inviting comments on a plan aimed at dramatically simplifying and streamlining superannuation.

The Government's proposed plan would:

- simplify superannuation arrangements for retirees and make it easier to understand;
- improve incentives to work and save; and
- introduce greater flexibility in how superannuation savings can be drawn down in retirement.

Under the plan retirement incomes would be improved and over 10 million Australians with superannuation accounts plus future account holders, and their families, would benefit through greater simplicity.

Why remove the tax on superannuation end benefits?

As noted in the recent report *International Comparison of Australia's Taxes* many countries tax their retirees at marginal tax rates when they take their benefits. But there are aspects of this arrangement which are inconsistent with Australia's superannuation system. For instance, it would impose a higher tax burden on older Australians taking part of their superannuation while they continue in the workforce. Penalising older Australians who continue to work is inconsistent with Government policies such as the mature age worker tax offset and the senior Australians tax offset.

Some countries limit the amount a person may take as a superannuation lump sum. The Government is not proposing to limit access to lump sums as it considers that retirees are best placed to determine how they use their superannuation to fund their retirement.

The current system has different arrangements for tax on contributions, earnings and benefits. In 1988, the then Government brought forward part of the tax which was previously applied to end-benefits. This dramatically exacerbated the complex tax treatment of superannuation in Australia.

The report of the Taskforce on Reducing Regulatory Burdens on Business, *Rethinking Regulation*, recommended that high priority be given to comprehensive simplification of the tax rules for superannuation. The report highlighted that the greatest area of complexity is the taxation of end-benefits.

Superannuation benefits tax is by far the most complicated. At present it is extremely difficult for anyone to understand how their superannuation benefits are taxed. A lump sum may include up to eight different parts which can be taxed in seven different ways. The transition to retirement is a significant time in a person's life and the taxation of superannuation benefits unnecessarily complicates this transition. Over 100,000 people aged 60 and over are expected to retire next year. This figure will gradually grow over time.

People must pay for professional advice or invest hours of time to try to understand these tax arrangements. How they decide to take their benefits can impact on how much tax they pay. Box 1 illustrates the complexity that a retiree currently faces when accessing their superannuation benefits. Box 2 illustrates the effect of the plan.

If people cannot easily understand what they will receive from their superannuation in retirement, they will have less confidence in the system. The complexity of the benefits tax arrangements not only affects retirees, it can also affect the decisions of people of all ages as to whether or not to make additional superannuation contributions. It also adds to the administration costs of superannuation funds.

The removal of benefits tax would sweep away these complexities and would result in a simpler system for those about to retire and for those considering making additional contributions. It would also mean that retirees no longer had to seek expensive taxation advice on their superannuation benefits.

The appropriate tax system for superannuation also needs to take into account the ageing of our population especially the need to remove disincentives for older Australians to remain in the workforce. The current taxation of superannuation benefits acts as such a disincentive as people pay higher taxes on their work income once they start to draw an income from their superannuation. The plan removes this disincentive.

Box 1 Current arrangements

Bill retires with a super benefit of $400,000.

Bill can choose to take a lump sum, pension or combination of both. Pension choices include allocated, lifetime or life expectancy pensions which determine how much money he has to take each year.

Bill decides to take a lump sum and an allocated pension.

Lump Sum of $100,000

For tax purposes the fund determines pre and post 1983 components (formula based on eligible services period) and undeducted contributions. The post-83 component is tax free up to the low rate threshold and taxed at 15 per cent above the threshold (up to lump sum RBL). Of the pre-83 component 5 per cent is taxed at marginal tax rates.

Bills benefit is assessed against the lump sum RBL. This is added to any superannuation benefits and employer termination payments which Bill may have already been paid. These benefits are indexed. The ATO will determine if there is an excessive component which Bill must include in his tax return. This is taxed at 38 per cent.

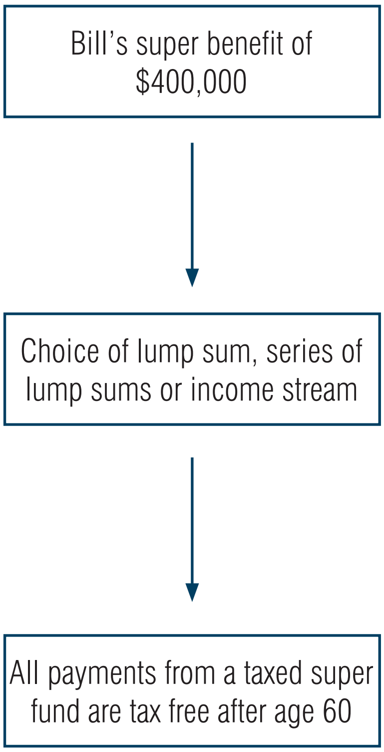
Allocated Pension of $300,000

The fund will calculate an annual deductible amount based on undeducted contributions and Bill's life expectancy. Minimum and maximum annual payment limits need to be determined.

Bill's pension is also assessed against the lump sum RBL. Any amount above the lump sum RBL will reduce the 15 per cent rebate.

Bill's pension income is taxed at marginal tax rates. Bill includes the pension income on his tax return and claims the 15 per cent rebate.

Box 2 Proposed simplified system



Why not remove the tax on superannuation contributions?

A key objective of the plan is to reduce the complexity imposed on retirees. The complexities placed on retirees outlined in Box 1 would still remain if the tax on superannuation contributions was reduced or even removed. Moreover, removal of the tax on contributions would further complicate the taxation of benefits and the decisions retirees have to make about how they take their superannuation if changes were made to the taxation of lump sums and the pension rebate.

Removing the tax on contributions would require the apportioning of the amount of benefits on which the tax was paid. This would also require a new lump sum component to be added for benefits accumulated from the removal of the tax on contributions. This component would be taxed at an additional 15 per cent to what applies to lump sums now. Removing the tax on contributions would further complicate the taxation of superannuation pensions, as the 15 per cent superannuation pension rebate would be abolished for any part of the pension accumulated after the removal of the tax.

The removal of benefits tax, in combination with the proposal for a fairer pension assets test, would result in higher retirement incomes than could be achieved by only removing the tax on contributions. The removal of end benefits tax is a greater benefit to people who will retire in the near future, as it would apply to all of their existing benefits and not only their future contributions. Table 1 shows the effect of the plan on a person's retirement income after receiving 40 years of employer contributions. The change in retirement income for the plan includes the effect of the removal of benefits tax and the proposed changes to the assets test. Low-to-middle income earners could achieve larger improvements by claiming the Government's co-contribution. The relatively small increase in retirement income under the removal of the tax on contributions reflects, in part, the fact that increases in superannuation benefits would to some degree be clawed-back by the pension assets test.

Table 1. Percentage increase in retirement income of the plan compared to only removing the tax on contributions*

Average weekly income ($)	Improvement in retirement income			
	Proposed plan		Removal of the tax on contributions	
	(%)	With co-contribution (%)**	(%)	With co-contribution (%)**
400	4.3	10.3	2.5	1.0
600	7.9	14.2	2.1	1.2
800	12.3	15.0	1.8	1.5
1,000	17.0	17.6	2.2	2.4
1,500	21.7	21.7	8.1	8.1
2,000	19.4	19.4	10.2	10.2

* Assumes the person converts their superannuation benefits into an income stream which is drawn down at the minimum level provided by an allocated pension.
** Person receives the maximum amount of co-contribution.

The cost of removing the tax on contributions, along with the proposed reforms to the pension assets test, would be considerably greater than the cost of this proposed plan.

Removing the tax on contributions also does not have the same benefits on participation as the removal of benefits tax as the draw down of superannuation would be included in the assessable income of the person, potentially increasing the tax on their work income.

What would the proposed superannuation system look like?

The proposed system would significantly change the treatment of superannuation benefits while the concessional tax rate on contributions and the earnings of superannuation funds would remain. The effect of the changes on the various elements of the system is outlined below.

Benefits

- No tax would be paid on superannuation benefits paid from age 60 (either as a lump sum or as a pension) where tax was previously paid on contributions and earnings.
- Tax would still be paid on benefits paid to someone aged less than 60 although the rules would be simplified.
- Reasonable Benefit Limits would be abolished.
- People would no longer be required to draw down on their superannuation once they stop working. This would give retirees more flexibility in how they use their superannuation.

Contributions and earnings

- Employer contributions to an employee's superannuation fund (which include the 9 per cent Superannuation Guarantee) and pre-tax contributions from the self-employed would be treated the same.
  - The self-employed would receive full deductibility for their contributions consistent with contributions made on behalf of employees.
  - Age-based limits would be abolished and replaced with a new annual contribution limit of $50,000 (with a transitional period for people aged 50 and over).
  - The ability to make deductible superannuation contributions would be extended to age 75.
- Contributions made by an employee to their superannuation fund (paid from their post-tax income) and the Government co-contribution would continue to be exempt from the tax on contributions. The co-contribution would be extended to post-tax contributions made by the self-employed.
  - Post-tax contributions would be capped at $150,000 a year (three times the pre-tax annual contributions level) to ensure the more concessional treatment of superannuation benefits is targeted appropriately. The Government will consider whether the cap should be averaged over three years to allow people to accommodate larger one-off payments.

- Earnings on contributions would continue to be taxed at a maximum of 15 per cent. This rate can be reduced through the application of imputation and other credits.

Untaxed schemes

In some superannuation schemes no employer contributions are made until a benefit becomes payable and no contributions or earnings tax is paid. These arrangements are primarily restricted to employees in the public sector, such as public servants, with the majority of these funds closed to new members. These benefits would be treated as follows.

- As no tax has been paid on either contributions or earnings, superannuation benefits from these funds have traditionally had a higher tax rate on withdrawal (eg pensions are taxed at marginal tax rates with no 15 per cent rebate).
- For equity reasons, for people aged 60 and over, lump sum benefits from an untaxed scheme would be taxed at 15 per cent up to $700,000 and at the top marginal tax rate thereafter. Pensions would be taxed at marginal tax rates but would receive a 10 per cent rebate of the total taxable part of the pension as an offset. This would ensure a similar tax treatment between benefits paid from taxed and untaxed funds.

What are the benefits of the plan?

Retirees

There are significant simplicity benefits for retirees. Under the plan, the 100,000 Australians who turn 60 each year and retire would have a much simpler system to face when deciding how to draw on their superannuation. They would no longer need to pay for financial advice on how their superannuation benefits will be taxed as they would be tax exempt. Independent evidence given to the House Standing Committee on Economics, Finance and Public Administration, inquiry into improving superannuation savings of people under age 40, stated that this advice can cost in the order of $3,000 to $10,000 depending on the complexity.

The plan would also have a significant impact on a person’s retirement income. An average income earner would have a tax saving of around $37,000 or an additional $136 a week if they take their benefit as a superannuation pension. There are greater benefits if a person chooses to make additional superannuation savings.

As superannuation would not be assessable income, there would no longer be a disincentive for people to continue with some work while drawing on their superannuation. With no tax on their superannuation, they may pay less tax on income from work.

People would no longer be forced to draw down on their superannuation benefits after age 65. Superannuation could be paid out whenever and however a person wishes. People could take as much or as little as they like and it would not have to be included in their tax return.

Australians would have the flexibility to change their arrangements as their circumstances change. If people wanted to keep some money in their superannuation account for a rainy day, then that choice would be left to the individual.

The plan reduces the myriad of rules and red tape that superannuation funds must contend with when paying a benefit. This dramatic reduction in complexity could be expected to reduce over time the costs facing superannuation schemes in delivering their services and therefore contribute to lower fees and charges over the longer term.

The self-employed

Currently, there are different rules on the concessional treatment of contributions made by the self-employed. The self-employed can claim a tax deduction for the first $5,000 of superannuation contributions and then 75 per cent of any contributions above this amount until they reach their age-based limit. An employer can claim a full deduction up to the age-based limits for their employees. The self-employed also currently do not qualify for the Government co-contribution.

Under the plan, all superannuation contributions made by the self-employed would be deductible. The self-employed would also be eligible for the Government co-contribution for their post-tax contributions.

Age pensioners

The plan would not reduce an age pensioner's existing entitlements. Superannuation would still be included as part of the income and assets tests in determining a person's eligibility for the age pension.

However, more generous pension assets test rules would increase incentives to save.

Currently, a person loses $3 of age pension per fortnight ($78 annually) for every $1,000 of assets above the assets test free area. This is very punitive as retirees must achieve a return of at least 7.8 per cent on their additional savings in order to overcome the effect of a reduction in their age pension amount. This acts as a large disincentive to save for retirement.

As superannuation savings increase, as well as the value of other assets such as investment houses and shares, the number of people affected by the assets test is projected to grow with more low-to-middle income earners having their age pension reduced by the assets test. The current assets test also prevents existing retirees with relatively modest assets but with low incomes from being able to access the age pension.

To make the assets test fairer, it is proposed to reduce the pension assets test taper rate to $1.50 per fortnight for every $1,000 of assets above the free area from 20 September 2007. Based on the current age pension, a single retiree homeowner could have around an additional $165,000 of assets before losing the age pension, while a couple could have around $275,000 of additional assets.

The current 50 per cent assets test exemption for complying income streams would be removed from 20 September 2007 to coincide with the reduction in the assets test taper rate. Retaining the 50 per cent assets test exemption under the new arrangements would create scope for wealthy individuals to access the age pension and the associated concessions.

However, people would still be eligible for a 50 per cent exemption for complying income streams purchased before 20 September 2007, and a 100 per cent exemption for those purchased before 20 September 2004.

Tax exempt superannuation benefits

Australians aged 60 and over who have already paid tax on their contributions and earnings would not pay tax on their superannuation benefits and would not need to disclose superannuation payments in tax returns.

Now

Judy retires at age 62 and has $200,000 in superannuation:

- she needs to consider the impact of tax on her benefits – she will have a lump sum of less than $200,000 after tax
- different taxes apply if she takes a lump sum or pension
- she must include the benefit in her tax return
- her superannuation benefit will be reported for RBL – which may result in more tax being paid.

Proposed

Judy retires at age 62 and has $200,000 in superannuation:

- no tax on pension or lump sum – she would have the benefit of $200,000 in retirement
- benefits are not included in her tax return
- no RBL calculation.

From 1 July 2007, a person aged 60 and over would not pay tax when they receive their superannuation benefits from a fund in which contributions and earnings tax has been paid. This covers over 90 per cent of Australians with superannuation benefits.

Instead of facing a system where the amount of tax depends on whether:

- they started work before 1 July 1983; or
- they have already received some superannuation benefits; or
- they take a lump sum or pension;

a person aged 60 and over would pay no tax when their superannuation benefits were paid.

For people whose contributions and earnings have already been taxed the basic principle would be:

When planning for their retirement a retiree would not have to worry about tax on their superannuation benefits.

In some superannuation schemes no employer contributions are made until a benefit becomes payable and no contributions or earnings tax is paid. For equity reasons, people in these untaxed schemes would still have to pay tax when they take their benefits although at a lower rate for people aged 60 and over than is currently the case.

The preservation age for accessing superannuation would not be changed. A person below age 60 would be taxed on their superannuation benefit as they are now. However, the number of components that are tax exempt would be increased to simplify these rules.

The RBLs would be abolished for all people.

Benefit rules simplified

Individuals would have more flexibility over how much of their superannuation they take and when they take it.

Now	Proposed
Archie must take his superannuation as soon as he is age 65 and is no longer working. His benefits must be paid when he turns 75 even if he is working. He must make a decision between taking his benefit as a lump sum or as a pension or annuity. Pensions and annuities are required to meet rules which determine how much must be paid each year, how long payments must be made, how payments increase each year and if a person can access their capital.	Archie could keep his money in superannuation for as long as he wanted and withdraw money as needed. The pension and annuity rules would be streamlined.

In addition to the complex taxation rules retirees must also navigate through another set of complex rules which determine when they must take their benefits and in what form.

The proposed removal of tax on superannuation benefits provides the opportunity to simplify these rules.

Individuals are best placed to determine how they use their superannuation during retirement. Therefore, under the plan, from 1 July 2007, the rules which force a person to take their superannuation after age 65 would be removed. Individuals would no longer have to worry about meeting a work test in order to keep their benefits in a superannuation fund.

The superannuation system would also be more flexible to meet the demands of an ageing population with longer life expectancies.

People would be allowed to take their benefit as a regular income stream or leave it in the fund and draw down on it when they wanted. This would allow a person to keep capital in the fund to meet unexpected costs or as a buffer if the capital in their income stream runs out. The pension and annuity rules would be simplified so that superannuation funds could develop products which are better suited to the needs of retirees.

Simplified contribution rules

A single set of rules would apply to all superannuation fund members replacing the age-based limits. The self-employed would be able to claim the same deduction as contributions made on behalf of an employee.

Existing contribution rules

Contributions below the age-based limits	
<35 yrs	$14,603 pa
35 – 49 yrs	$40,560 pa
50 – 69 yrs	$100,587 pa

Proposed contribution rules

Concessional contributions limited to $50,000 pa*	15 per cent tax

* The ATO would identify any contributions made above this limit. These contributions would be taxed at the top marginal tax rate.

Currently, concessional superannuation contributions are taxed at 15 per cent. In addition, if an employer makes a contribution above the age-based limit, the contribution is still taxed at 15 per cent but the employer is denied a 30 per cent deduction on that contribution.

It is proposed that the current contribution tax arrangements would be replaced with a streamlined set of rules from 1 July 2007 with a single rate of concessional contributions of $50,000 per annum. Employers would be able to claim a full deduction for superannuation contributions.

People would be able to put more concessionally taxed money into superannuation from a younger age. The different treatment of contributions made by the self-employed and by employers on behalf of employees would be removed. Eligibility for the Government co-contribution would also be extended to the self-employed. The ability to make deductible superannuation contributions would be extended up to age 75.

A transitional period would apply for people who are aged 50 and over. This would allow those people who were planning to retire soon to continue to make larger concessional contributions.

The removal of benefits tax and RBLs would increase the concessions provided to superannuation. These proposed changes in conjunction with the current tax exempt status of superannuation pension assets, would make superannuation an attractive vehicle to retain assets to avoid paying tax. There would be an incentive for high-wealth individuals to transfer large amounts of assets currently held outside superannuation to the concessionally taxed superannuation system. To ensure these concessions are targeted appropriately a cap of $150,000 a year (three times the proposed concessional contributions limit) on the amount of post-tax superannuation contributions a person can make would apply. The Government will consider whether the cap should be averaged over three years to allow people to accommodate larger one-off payments. If the plan was implemented, this would apply from Budget night, 9 May 2006.

Removing disincentives to work and save

People would be able to draw down on their superannuation without increasing the tax paid on their work income. Disincentives caused by the age pension assets test would be reduced.

Now	Proposed
Superannuation benefits are treated as assessable income for income tax. This reduces the incentives for someone drawing on superannuation to receive any work income. The age pension is reduced by $3 per fortnight for every $1,000 of assets above the assets test threshold, which reduces incentives to save.	There would be an incentive for people to remain in the workforce until age 60. From age 60, people may pay less tax on their work income as superannuation benefits would be exempt from tax. Removal of end-benefits tax and RBLs would make superannuation a more attractive savings vehicle. The age pension would be reduced by $1.50 a fortnight for every $1,000 of assets above the assets test threshold.

As the population ages we will need to encourage people to remain in the workforce for longer to ensure Australia has the skills needed to maintain a prosperous and sustainable economy. Making superannuation benefits tax free to people aged 60 and over provides an incentive to remain in the workforce at least until that age.

Exempting superannuation benefits from tax also increases the incentives for people aged 60 and above to undertake some work while drawing on their superannuation.

For example, Joe is age 62 and has income from superannuation of $25,000 and work income of $20,000. Under the existing superannuation tax system and tax scales he would pay tax of approximately $5,775 (including Medicare levy and the 15 per cent pension rebate) on this income. Under the plan, with his superannuation no longer being counted as part of his assessable income, the amount of tax paid on his work income would be approximately $1,800 (including Medicare levy).

The assets test taper rate for the age pension creates a substantial disincentive for a person to save. The current $3 per fortnight taper rate can result in a person losing more age pension than they can often earn from their additional savings.

This high withdrawal rate penalises savings and undermines the Government's policies to increase retirement savings through the Government co-contribution and abolition of the superannuation surcharge. A taper rate of $1.50 per fortnight would reduce this disincentive.

Increasing retirement incomes

The plan would increase retirement incomes for all income earners and encourage saving. The plan would be a substantial investment by the Government in the standard of living of Australians in retirement.

Table 3 Potential impact of the plan on a person's retirement income

Average weekly income ($)	Projected retirement income before plan ($ per week)	Increase in average retirement income ($ per week)[1]	Increase in average retirement income with additional saving of 5% of earnings ($ per week)[1]
400	705	31	96
600	750	59	153
800	778	95	180
1,000	798	136	192
1,500	886	192	210
2,000	1,024	199	290

[1] Includes the increase in age pension and superannuation pension when the person takes the minimum amount from an allocated pension.

Table 3 shows the benefits of the plan on a person's retirement income. These are the benefits a person would achieve from the package if they have received 40 years of contributions of 9 per cent of earnings and retire at age 65. The changes result in significant improvements to retirement incomes.

Under the plan a person on $1,000 per week (about average full-time earnings) is projected to have accumulated superannuation benefits of approximately $466,000 through the Superannuation Guarantee arrangements alone. Under the plan, tax of around $37,000 payable when the benefit is paid would be abolished. This average worker would thus gain around $37,000 in retirement, an increase of approximately 9 per cent if they take a lump sum. If the person chose to take their benefits as a superannuation pension they are estimated to have an average of around $136 per week in additional retirement income.

However, some people may want a higher level of retirement income than they will receive from the age pension and their compulsory superannuation. The plan builds on the introduction of the Government co-contribution and the removal of the superannuation surcharge as a means of encouraging additional savings. The plan provides further rewards for people who make additional superannuation contributions to improve their standard of living in retirement. For example, an additional contribution of 5 per cent of earnings would significantly improve retirement income. This is particularly the case for lower income earners who also benefit from the Government co-contribution.

Easier ways to find and transfer super

It would be easier for people to find lost superannuation and transfer benefits to a fund of their choice.

Now	Proposed
Felicity has worked for numerous employers. She has one account with her current employer but has lost track of two other accounts from previous employment. She does not know about the Lost Members Register or how to find and consolidate these accounts. She continues to pay multiple sets of fees and charges. From 1 July 2004, Felicity has been able to request a superannuation fund to move her benefits to another fund of her choice. Funds have up to 90 days to satisfy this request.	Felicity receives a letter from the ATO advising her of her lost accounts and asking her if she wishes to consolidate these accounts. If she wishes Felicity could return a simple standard form to the ATO and the ATO would arrange the consolidation of her accounts for her. The standard form could also be used by Felicity if she wishes to later move these benefits to another fund. Funds would have up to 30 days to satisfy Felicity's request.

The Government has already significantly improved the ability of people to manage and control their superannuation through the introduction of choice of fund (allowing employees to choose the fund for employer contributions) and portability (allowing people to move existing benefits from one fund to another). However, practical difficulties can make transferring and consolidating accounts difficult.

To make finding, transferring and consolidating accounts simpler, the Australian Taxation Office would take on a more active role in reuniting members with their lost superannuation and consolidating accounts. Importantly, the decision on whether and how to consolidate lost accounts would remain with the member but once that decision is made the ATO would organise the consolidation. The process envisaged would be simple for a person.

- The ATO would contact people with lost accounts and provide them with a simple standard form to complete.
- If a person wished to consolidate these accounts, they could complete this form and the ATO would do the rest. The person would not need to deal with multiple funds with different processes and procedures.

To streamline the portability of benefits between superannuation funds it is also proposed to reduce the maximum 90 days for funds to process a transfer request to 30 days. All funds would also be required to use a standard form (including standardised proof of identity checks) for individuals to complete if they wish to directly arrange a transfer request through their fund.

Cutting red tape

The benefits end of superannuation would become simpler to administer.

Now	Proposed
Funds must monitor the working arrangements of every member aged 65 and over. Funds must report all benefits paid to members and commutations of pensions for RBL purposes. Funds must withdraw tax instalments from benefits and give pension recipients a payment summary for tax purposes. Funds must keep records on up to 8 different benefit components.	Simpler rules would mean less red tape and lower costs to superannuation funds.

Not only are the current payment and tax rules complex for individuals but they also impose significant costs on superannuation funds which are recovered from all members through fees and charges.

For example, there are rules which require a fund to commence paying a member's benefit if the person is aged 65 or over and have not worked at least 240 hours during the previous financial year. Funds must write to these members every year to ensure they meet this rule.

The reasonable benefit limits require funds to report every payment of a benefit to the Australian Taxation Office. The ATO received 676,000 reports for RBL purposes in 2004-05.

Currently, benefits can have a different tax treatment depending on the source of the contributions and when the benefit was accrued. These amounts must be recorded by the fund and reported to the member when they take their benefits.

Funds must withhold tax from lump sums and pension payments and provide payment summaries to the taxpayers.

These requirements would no longer apply once a person turns age 60.

ESTIMATED IMPACT ON UNDERLYING FISCAL BALANCE OF PROPOSED PLAN **($Bn)[a]**

	2006-07	2007-08	2008-09	2009-10
TOTAL IMPACT ON FISCAL BALANCE	**-**	**-1.6**	**-2.3**	**-2.3**

[a] Does not include administrative costs.

Making a submission

The Government is seeking public reactions to this plan to simplify and streamline superannuation. The Government is seeking comments from the community on this plan by Wednesday 9 August 2006.

A detailed outline of the plan is available on the website **http://simplersuper.treasury.gov.au.**

Comments can be forwarded to the following address:

General Manager
Superannuation, Retirement and Savings Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email address: **simplersuper@treasury.gov.au**

More detail on the plan can be obtained by calling **1800 012 238** between 9.00am to 5.00pm AEST.

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