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Director
Tax and Transfers Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
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By email: superannuation@treasury.gov.au

AUSTRALIAN SHAREHOLDERS' ASSOCIATION – CONSULTATION ON BETTER TARGETED SUPERANNUATION CONCESSIONS

Dear Sir/Madam

The Australian Shareholders' Association (ASA) represents its members to promote and safeguard their interests in the Australian equity capital markets. The ASA is an independent not-for-profit organisation funded by and operating in the interests of its members, primarily individual and retail investors, self-managed superannuation fund (SMSF) trustees and investors generally seeking ASA's representation and support.

Thank you for the opportunity to submit comments on the consultation paper *Better targeted superannuation concessions* (the paper), despite the short time frame for comment on yet another variation to how the superannuation regime works. The short period of 9 business days suggests that ad hoc changes to superannuation will continue to be an ongoing feature of superannuation policy as it is too short for a full exploration of the consequences, intended or otherwise.

We have a number of issues with the proposals outlined in the paper which we elaborate on over the following pages:

- The taxing of unrealised profits on asset movements, as if superannuation assets were trading assets;
- The immediate capture of any superannuation fund with a total superannuation balance (TSB) over $3m, however arrived at.
- Ignoring the impact of inflation despite superannuation's long-term nature; and
- The introduction of the additional tax with no transition period, as if superannuation assets were short-term investments.

The proposal and the way of introducing it appears to be designed to drive funds out of the superannuation regime, without the backlash of a hard cap on balances.

ASA position on retirement incomes policy

ASA supports the development of appropriate policies and strategies around the operation of the Superannuation regime which will enable Australians to have a comfortable retirement and be self-sufficient in generating a retirement income. This removes the growing burden of a government pension for an increasingly ageing population. We consider this to be a complex issue to tackle, and worthwhile.

We see the fears of individuals affected by this proposal (those with balances near or over the $3m), and other individuals unlikely to be affected (those with balances near or over $2m), reflect the fear of aging without sufficient resources to secure an appropriate retirement.

As we have previously noted in various submissions the costs of supporting the superannuation regime will need to be fair to prior, current, and future taxpayers.

We have also emphasised the need for stability in the superannuation regime to maintain the confidence to plan effectively to produce a retirement income. The transfer of the risk of funding retirement incomes to individuals as opposed to the Government comes with an obligation to make the system navigable by most participants. This risk includes investment, inflation and longevity (living longer than expected or longer than funding) risk.

The regime requires individuals to create savings and asset allocation to build wealth over many decades, and then to deliver income through, hopefully, many decades of retirement, directly or indirectly through super funds. While not tackled in any of the changes to the superannuation regime, we underline the transfer of risk lifts the importance of financial education to build an understanding of key financial skills such as budgeting, saving and investing and retirement income planning for the Australian population.

Proposal shortcomings

Unrealised profits to be taxed

While we concede the importance of not imposing additional administration costs on the superannuation regime by adding to the reporting obligations required to calculate income, the use of TSB taxing unrealised profits is inappropriate to the long-term nature of the investments.

Superannuation's long-term requires allocation to a diversity of assets with different risk and growth profiles. Outside aggregated products such as pooled annuities, it is unlikely returns will be delivered or values will grow in a neat linear fashion, they are likely to be lumpy step-ups and or step-downs.

With exchange-traded assets, holders can see the prices each day. Values move variably (with 20% changes over a year or month being common) and are impacted by market-wide events which can see a 20% fall across the board periodically. Many funds hold a portion of illiquid assets with long fixed-terms, which should be sensible matching of the long-term nature of super, with a diversification benefit of being uncorrelated with the returns of exchange-traded assets such as shares. The values of these assets are even more likely to vary step-wise, such as when a property completes construction, yet they may not be realisable at that time due to the structure around the investment.

Unintended consequences:

- Encourage short-term investments in liquid assets and trading mentality.
- When tax is due to be paid, asset value could already have fallen back below $3m.
- Pressure on asset prices when tax is due as they are sold to raise funds for tax payment.

Immediate capture

The paper states once funds exceed $3m they will attract the additional tax.

This will lead to a preference in super assets for more liquid assets to pay the additional tax – more short-term exchange traded assets and short-term fixed interest – increasing vulnerability to downward market movements and erosion of value by inflation.

Death of a spouse or partner will trigger the additional tax and increase number of impacted individuals beyond the 80,000 suggested in the paper as it will include those partners with individual balances well below the $1.9m super limit. The inclusion of withdrawals in the calculations could exacerbate this, as the surviving partner restructures their super to reflect their changed future.

Ignoring inflation

The intention not to index the $3 million threshold for inflation will not provide certainty to people when arranging their tax and financial affairs. Inflation and the time value of money is a crucial determinant for the successful planning of a long-term investment such as superannuation. It also suggests the proposal in itself is not designed for the long-term.

No transition period

The paper states information relating to the 2025-26 financial year is likely to be reported in the first half of 2027. Therefore, the first notifications for the new tax liability are expected to be issued in the second half of 2027.

Unless the proposal is amended to a form which is broadly acceptable with bipartisan support, this proposal is likely to be a political football at the next election with opponents promising some repeal of the legislation. The uncertainty will persist until the election outcome is known, and debate will avoid facts, which is not conducive to a sensible policy outcome.

More time is required to restructure illiquid superannuation assets which may have five or ten years until maturity. The unintended consequences of the proposal include the removal of funding for long-term investments and potential for tradeable assets to be realised to pay the tax leading to a greater proportion of illiquid assets within funds.

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On the calculations

Proportioning is an arbitrary calculation which ignores the nature of the investments in the pension and accumulation phase may differ. We would expect the assets held to deliver income in pension phase to generate cashflow to fund living expenses, whereas those in accumulation phase would be more likely to generate growth in value.

There will be an added administrative complexity for individuals not yet in pension phase, in keeping the 15 per cent tax on super balances above $3m being imposed separately to personal income tax.

Summary

The continued ad hoc changes to superannuation is scaring self-funded retirees and those who aspire to be in the future. They are querying what may be next. The way of introducing this policy induces fear for superannuation builders and is likely to encourage holding lower balances, where individuals are able to restructure their affairs to do so.

There are likely to be additional individuals beyond the 80,000 identified impacted, being surviving spouses and those captured by the $3m not being indexed for inflation.

A five-year phase in period would allow funds to change their asset allocation in an orderly fashion and also allow the development of reporting regime to enable a more appropriate taxation of realised profits.

Special transition arrangements should be enabled for balances which exceed $3m due to death of a partner.

If you have any questions about these comments or other matters, please do not hesitate to contact me (ceo@asa.asn.au), or Fiona Balzer, Policy & Advocacy Manager (policy@asa.asn.au).

Yours sincerely

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