Productivity Commission Assessing Competitiveness and Efficiency – Submission

Dear Sir,

I wish to make a submission to the Productivity Commission investigation into the Competitiveness and Efficiency of Australian Superannuation.

My submission relates to the efficiency of superannuation.

The commission should consider the taxation of superannuation, as this is the most significant factor that impacts on the efficiency of superannuation. Broadly, superannuation is currently taxed at the contribution and earnings stages and is not taxed at the pension stage. This is almost the opposite of good public policy, and it would be more efficient to not tax superannuation at the contribution and earnings stages and to tax superannuation at the pension stage (based on personal income tax rates).

The reasoning for this is as follows (using CPI adjusted figures):

(1) An individual contributing one unit to superannuation each year for 40 years, earning an annual return of 3.5%, will have a final superannuation balance of 86.5 units.
(2) An individual contributing one unit to superannuation each year, earning an annual return of 3.5%, and being taxed 15% for contributions and 15% for earnings will have a final superannuation balance of 64.6 units.

The benefits of this proposal are:

(1) It is more efficient because individuals receive a 33.9% higher (pre-tax) pension income, and would receive a higher (post-tax) pension income, especially for lower income individuals.
(2) Government would receive additional taxation revenue (over the long term)
(3) Government support for the aged pension safety net would be reduced (as individuals, and particularly lower income individuals, would have higher superannuation pensions)
(4) Individuals could contribute a lower percentage of their income to SGC superannuation during their working life, and so could enjoy a higher disposable income during their working life.
(5) It would be fairer than the current system, as it would be taxed using current progressive tax rates for individuals. Individuals with lower incomes would see their tax rates reduced, and individuals with higher incomes would see their tax rates increased.

Of course, one issue is the potential shortfall of Government revenue, until the superannuation system is fully mature (due to the delay in receiving superannuation taxation revenue). Government should take a broader view of superannuation (and minimise the taxation of superannuation during contribution and earning stages, so that compounding effect of earnings during the working life of everyone can be harnessed to maximise the efficiency of superannuation). One strategy would be to transition (by reducing the contribution and earnings taxes – so they provide taxation revenue equivalent to "the average overall personal tax rate * overall superannuation contributions", applying individual tax rates to superannuation pensions and providing a "refundable" tax credit for any tax that has been paid during the contribution and accumulation stages.

Yours sincerely,

Donald Young