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Director
Tax and Transfers Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: superannuation@treasury.gov.au

Dear Sir/Madam,

Better Targeted Superannuation Concessions consultation paper

CPA Australia represents the diverse interests of more than 170,000 members, working in over 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

We take this opportunity to provide comment on the government's announcement on 28 February 2023 regarding the imposition of an additional 15 per cent tax on the earnings on that part of superannuation balances that exceeds $3 million and the proposed implementation of this measure.

CPA Australia supports the principle that fairness and equity in government support of superannuation must be a primary characteristic of an ideal retirement savings system. We agree that the level of total government support should be subject to limits which are reasonable, but which do not compromise adequacy.

However, we believe it to be an important point that budget repair should not be the driver of change to the levels of government support of superannuation. The Minister for Financial Services, the Hon. Stephen Jones MP (Hansard 8 March 2023) stated in Parliament that:

> *The reason we are doing this is that this government has inherited a trillion dollars of debt from those opposite.*

We believe that the government has acted prematurely with this announcement while it is still consulting on, and yet to define, the objective of superannuation. Policy changes should only be made once the objective of superannuation – and retirement savings – is defined by the government.

Constant and piecemeal changes undermine the community's confidence in the superannuation system and government policy. What is being proposed is a piecemeal change that should not be made in isolation. The objective of superannuation consultation paper identifies this risk to making such piecemeal changes in its Executive Summary:

> *Haphazard or inconsistent changes in superannuation system policy undermine the community's trust in the system and increases costs to trustees, regulators, and ultimately members.*

Increased costs to trustees and members mean less will be available in retirement for all Australians, not just those with superannuation balances of greater than $3 million.

Limiting tax concessions for more wealthy individuals may appear ideologically sound. However, there are many questions still to be answered regarding the implementation of and unintended consequences associated with, the proposed changes. As an aside, we note that the situation where the earnings on superannuation of lower income earners are taxed at a rate higher than their marginal rate of tax will continue.

There is a real risk that average Australian families and small business owners will be adversely impacted, particularly due to the lack of indexation of the $3 million threshold and the taxation of unrealised capital gains. As the $3 million threshold is not indexed, more people will be captured and impacted over time. A $3 million superannuation balance may not be considered excessive in the following contexts:

- An increasing number of Australians are carrying housing debt into retirement and using their superannuation to pay off the debt, leaving little remaining from a $3 million balance.

- The continuing decline in home ownership means that more people will be renting in retirement, requiring larger superannuation balances to continue paying housing costs, as well as maintaining their standard of living, in retirement.

- The gender superannuation gap continues to exist. One partner of a couple commonly has less superannuation than their partner due to taking on caring commitments throughout their working life and then relying on their partner's superannuation in retirement. $3 million may seem an excessive superannuation balance for an individual but it is not necessarily so for a couple.

Further, we note that small business owners, including farmers, are encouraged to hold their business property within their self-managed superannuation fund (SMSF) due to the business real property exemption provided from the in-house asset rules. As these assets are often larger and illiquid, these individuals may be unduly disadvantaged and taxed excessively, particularly if the value of the business asset varies due to economic factors outside of their control, which results in their superannuation balances fluctuating above and below the $3 million threshold from one financial year to the next. Superannuation tax concessions are designed to encourage and compensate for forced long-term saving and preservation of benefits to retirement age. People contribute to superannuation in good faith expecting that their superannuation will be treated consistently based on the rules of the day. Constant changes undermine confidence in the superannuation system.

Recommendations

Superannuation is a complex policy area that must be navigated carefully. CPA Australia's recommendations in response to the consultation paper (the "paper", the "consultation paper") and the policy announcement are:

1. An objective for superannuation and the broader retirement savings system must first be established before any major policy changes proceed

2. That the government does not proceed with implementing the Better Targeted Superannuation Concessions measure until after an objective of superannuation is defined and legislated

3. Any changes to superannuation thresholds must not proceed in isolation. These changes must be considered as part of a broader discussion regarding superannuation tax, concessions provided, and the complexities created by the myriad of caps, thresholds and limits currently in place. Any discussion regarding superannuation reform must also consider the interaction with the tax and transfer system.

If you have any queries with respect to this submission, please do not hesitate to contact Richard Webb, Senior Manager, Financial Planning and Superannuation Policy on 03 9606 9607 or richard.webb@cpaaustralia.com.au or Michael Davison, Senior Manager, Advocacy and Retirement Policy on 0422 939 957 or michael.davison@cpaaustralia.com.au.

Yours sincerely

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CPA Australia

Attachment

Submission

Executive summary

The proposed $3 million threshold for the Total Superannuation Balance (TSB) in Australia is a significant measure that will affect individuals with larger superannuation balances. A most concerning aspect is that the threshold is not indexed, meaning that as the value of money decreases due to inflation, the number of taxpayers impacted will increase over time. The government has departed from the long-standing practice of indexing almost every other rate and/or threshold in superannuation. The $3 million threshold should be indexed to ensure that it retains its value over time and to align it with other superannuation thresholds.

Furthermore, the proposed threshold is set to recoup a target amount of taxation for budgetary purposes. We believe this trade-off of simplicity vs equity to be incompatible with the principle of retirement income adequacy. The threshold should be set to ensure that individuals have adequate retirement savings. We consider that the objectives of equity and adequacy are too important to be overridden by short-term focused, relatively small amount, fiscal penny-pinching.

It is important to note that the consultation paper acknowledges the possibility of unintended outcomes arising from the proposed changes to the taxation of superannuation. However, it is unclear whether the taxation of unrealised capital gains or withdrawals of these gains are considered part of these unintended outcomes. It is essential that the explanatory memorandum to any bills introduced to Parliament explicitly addresses this issue to provide clarity and transparency to affected parties. The potential impact of taxing unrealised capital gains or withdrawals of these gains on individuals' retirement savings must be carefully considered before implementing any changes.

The Mercer CFA Institute Global Pension Index shows that Australia's ranking has retreated in recent years, mostly due to the adequacy measure, which has dropped to a rank of 20 out of 44. The threshold for the TSB needs to be carefully considered to ensure it achieves the desired outcomes and is fair and equitable for all taxpayers. An appropriate threshold would have been better set higher, and ideally a multiple of another threshold presently in use - such as the transfer balance cap, which is currently set at $1.7 million.

However, the most concerning aspect of this measure is that it has been announced prior to the fulfilment of another measure announced by the Government; that is, *Legislating an Objective of Superannuation*. We recommend that this proposed change to taxation of superannuation earnings not be implemented until after an objective of superannuation is defined and legislated. Any changes to superannuation thresholds must not proceed in isolation. These changes must be considered as part of a broader discussion regarding superannuation tax, concessions provided, and the complexities created by the myriad of caps, thresholds and limits currently in place. Any discussion regarding superannuation reform must also consider the interaction with the tax and transfer system.

However, if the proposed changes were to proceed, we recommend that:

- The option for trustees to provide a figure showing the actual share of fund income attributable to each member will bypass the need to create simplistic artificial proxies.
- Tax benefits in the case of negative earnings be refundable to ensure that taxpayers are not unfairly penalised for circumstances outside of their control, such as death, total and permanent disability (TPD) or terminal illness.
- There be a comprehensive review undertaken into the many caps, thresholds and limits presently in place in the superannuation system to ensure harmonisation with this measure.

Our specific comments on each of the components of the consultation paper follow.

Implementation details

Who is in scope?

From 30 June 2026, individuals with a TSB of more than $3 million will be subject to additional tax of 15 per cent on their calculated earnings. The threshold applies to all individuals, even if they are not eligible to access their superannuation benefits. Individuals can check their TSB through ATO online services –available at the myGov service - which represents the combined value of all their superannuation accounts as at 30 June each year. There will be no additional reporting obligations on funds and members, as all superannuation funds already report the required information to calculate TSBs. However, it is expected that the method of calculating TSB information in respect to defined benefit funds will change.

The proposed $3 million threshold for the TSB is a significant measure that will impact individuals with larger superannuation balances. However, one of the most concerning aspects of this proposal is that the threshold is not indexed, unlike almost every other rate and/or threshold in superannuation. This means that the number of taxpayers impacted by this measure will increase over time as the value of money decreases due to inflation.

We believe that the $3 million threshold should be indexed to ensure that it retains its value over time. This would ensure that individuals are not unfairly impacted by inflation. It would also provide certainty and predictability for taxpayers as they plan for their retirement. This would also align it with other superannuation thresholds and help to avoid any potential inconsistencies in the system.

It is important to note that the proposed threshold has been set to recoup a target amount of taxation for budgetary purposes. However, we believe that this is incompatible with a principle of retirement income adequacy. The aim of the superannuation system is to provide retirement income for individuals, and any measure that limits the amount of superannuation savings that individuals can accumulate risks reducing retirement income adequacy. The threshold should be set with a view to ensuring that individuals have adequate retirement savings.

The Mercer CFA Institute Global Pension Index (MCIGPI) (Knox et.al. 2022) uses a weighted index to assess the level of income that retired workers can expect to receive relative to their pre-retirement earnings. The adequacy score is based on factors such as the level of mandatory contributions, the eligibility age for retirement benefits, the level of benefits provided, and the extent to which workers are covered by pension plans.

Australia's ranking of 6 overall in 2022, has retreated in recent years, mostly due to our adequacy measure. Australia's score is presently 20th out of the 44 pension systems measured by the index. We are concerned that this measure will continue to adversely affect pension adequacy in Australia.

Finally, no case has been made for why $3 million was chosen as a threshold. We believe that an appropriate threshold should have been higher, and ideally a multiple of another threshold presently in use – such as the transfer balance cap, currently set at $1.7 million, which we believe to be the most appropriate benchmark. A multiple of the transfer balance cap, for example three times the cap, would provide consistency and fairness in the system and ensure that the threshold is set at a level that reflects the needs of individuals in retirement. Overall, we believe that the threshold for the TSB needs to be carefully considered to ensure that it achieves the desired outcomes and is fair and equitable for all taxpayers. We note that with conservative modelling of the $3 million dollar threshold, assuming a level of CPI at 2.5 per cent, the transfer balance cap will overtake the threshold in 2044, or sooner, if the currently high rate of inflation continues.

The proposed threshold for higher tax rates on superannuation balances over $3 million in Australia sends a clear message that higher balances are now acceptable. In contrast, previously a mixture of caps, thresholds and limits acted to prevent members from accumulating more than what was considered reasonable. However, it is important to review the many duplications of contribution caps and restrictions to ensure that this measure is not undertaken in a vacuum. A comprehensive review must be undertaken to investigate the potential impact of the proposed threshold on the overall superannuation system, particularly in terms of contribution caps and restrictions. The review will help ensure that the proposed threshold is implemented in a manner that is consistent with the principles of fairness, equity, and retirement income adequacy.

Method for calculating tax liability

If an individual's TSB exceeds $3 million for a year, earnings relating to the part of their TSB over $3 million will attract an additional 15 per cent tax. To calculate earnings, the difference between an individual's TSB for the current year, adjusted for withdrawals and contributions, and their TSB from the previous year is taken. Then, earnings are attributed to superannuation balances of more than $3 million on a proportional basis. Finally, a flat tax rate of 15 per cent is applied to the proportion of earnings attributable to an individual's balance over $3 million. For example, if an individual's calculated earnings are $650,000 and only 50 per cent of these earnings are attributed to their TSB over $3 million, their tax liability would be $48,750 (15 per cent x $650,000 x 50 per cent).

"Withdrawals" and "contributions" for the purposes of this calculation are intended to include outflows and inflows to one's superannuation account which are not investment earnings.

The proposed method of taxing unrealised capital gains presents several issues. Firstly, this method is inconsistent with current taxation practices where capital gains are only taxed when they are realised. This inconsistency creates confusion and could lead to unintended consequences for taxpayers. The proposed method would require individuals to pay taxes on gains that have not been realised, which may not be feasible for many taxpayers, as there may not be the cash available, remembering that the increase in the value of the superannuation is unrealised. Perversely, the assets forming the superannuation balance may need to be sold – and any capital gain realised – to pay for the increased taxation resulting from the unrealised capital gain of those same assets.

Secondly, the formula used to calculate the tax liability adds back withdrawals and subtracts contributions. However, in cases where an individual exits superannuation entirely during a year of investment losses – including the payment of death, TPD and terminal illness benefits – there is no way to recoup the future tax benefit of the investment losses. This is an inequity that needs to be addressed to ensure that taxpayers are not unfairly penalised for circumstances outside of their control. To address this, we recommend that tax benefits be refundable rather than future offsets.

In addition to addressing these inequities, refunding taxes for investment losses could also smooth investment earnings and reduce investment risk for members. This could be achieved by allowing taxpayers to claim back any taxes paid on unrealised losses, which would help to stabilise investment returns and reduce volatility.

The proposed calculation only applies to members with a starting TSB of $3 million or over. However, delayed processing of a withdrawal from the previous year by a superannuation fund may mean that liability for the tax continues into a new financial year through no fault of the member. This issue needs to be addressed to ensure that taxpayers are not unfairly penalised for circumstances outside of their control.

Where members finish the financial year with a TSB over $3 million, the starting TSB to be used in the calculation will be set at $3 million. Correspondingly, in the event that investment losses cause a final TSB to drop below $3 million, the final TSB to be used in the calculation will also be set at $3 million.

The increased liability for tax on unrealised capital gains also raises several concerns related to the valuation of assets, timing of asset sales, and compliance with superannuation law. For example, determining the market value of certain assets, such as unlisted shares or business real property, can be challenging, leading to potential disputes between trustees and the Australian Taxation Office (ATO), as well as potential buyers of assets. It should be noted that it is possible that a related party may need to provide a market for the sale of assets in an emergency situation, and this may bring trustees into conflict with the non-arm's length income and expenses (NALI/E) rules.

Furthermore, the timing of asset sales can also have significant tax implications. If a fund needs to sell assets to meet the tax liability, it may be forced to do so at an unfavourable time, resulting in lower returns for members. This can be particularly problematic for funds with illiquid assets, as selling such assets may take longer and require a more strategic approach.

Finally, the proposed changes may also raise concerns related to compliance with superannuation law. Trustees are required to act in the best interests of members and manage funds prudently. The introduction of a new tax on unrealised capital gains may require fund managers to reassess their investment strategies, potentially

increasing risk to meet tax liabilities. This may conflict with their obligation to manage funds prudently and in accordance with superannuation law. This obligation may also be affected where SMSF trustees make the decision to administer funds in accordance with tax-effect accounting, rather than on a cash basis.

Overall, the introduction of a tax on unrealised capital gains may have unintended consequences that need to be carefully considered before implementation. It is crucial to address issues related to valuation of assets, timing of asset sales, and compliance with superannuation law to minimize the potential negative impacts on members' retirement savings. By doing so, the proposed changes may potentially be implemented in a way that is fair and equitable, and does not harm taxpayers or the economy.

Calculating earnings

The proposed approach to estimate earnings for impacted individuals' superannuation interests in SMSFs and APRA-regulated funds seeks to minimise additional compliance costs, by relying largely on existing data reported. The earnings calculation involves three components: TSB, Withdrawals, and Net Contributions. Negative earnings may occur and can be carried forward to offset future earnings.

Total superannuation balance

The TSB is an existing calculation used to determine eligibility for various superannuation measures. The TSB is calculated annually by adding the value of accumulation phase and retirement phase interests, in-transit rollovers, and certain outstanding limited recourse borrowing arrangements, and subtracting personal injury or structured settlement contributions paid into superannuation. The TSB is used as the starting point for calculating the earnings tax liability, which is the difference between the TSB at the end of the financial year and the TSB from the prior year, including all notional gains and losses.

The calculation uses the TSB to estimate movements in the value of one's superannuation investments. This implies taxation of unrealised capital gains, in addition to the other components making up the value of one's superannuation balance at the end of the financial year. If all capital gains were fully taxable, it is reasonable to expect that – before any adjustment to reflect the time value of money – taxation of realised and unrealised capital gains would largely equalise over the long term. But in Australia, taxable capital gains are not fully taxable, since for all regulated superannuation funds a discount of one third is available for realised capital gains from the disposal of assets by funds. This means that ultimately, one would expect that in relation to tax on capital gains, this extra tax reflects an additional cost which is not immediately apparent.

However, we also point to modelling of one scenario undertaken by CPA Australia which suggests that where an additional amount of $1 million (separate to that member's first $3 million held elsewhere) is invested in a superannuation fund for 10 years, the investment will, on average, pay 43 per cent less tax if invested in an insurance or friendly society bond, which also pays a notional 30 per cent in tax. The higher taxation amount paid by the superannuation investment is almost entirely due to the taxation of unrealised capital gains. (Our assumptions for this scenario are contained in an appendix to this submission)

Although this is only one scenario of many, we suggest that Australians, presented with a finding such as this, would be quite reasonably confused as to why two similar investments, which are notionally taxed at 30 per cent, would be treated so wildly different.

Members of superannuation funds might also question why they are not compensated for being subject to preservation (compared to the "at-call" nature of insurance and friendly society bonds). Indeed, it seems they are being penalised for investing in their retirement savings future.

We offer several alternatives to alleviate this issue.

One option is to allow members (who have available TSBs above $3m) in the accumulation phase to be eligible for transition to retirement income stream drawdowns, (with the option of lump sums), and for income or lump sum payments (from taxed arrangements) to be taxed at marginal rates in the hands of members up to age 60.

Another option is to allow members the option to remove amounts over $3 million as a once-off lump sum withdrawal before the start of the 2025-26 financial year. Taxpayers would then be able to better allocate their investments outside of superannuation prior to the commencement date.

A final option would be to allow superannuation fund trustees to operate investment bonds for their members which are equivalent to insurance or friendly society bonds for tax treatment purposes, and allow withdrawals to fund premiums (subject to the ten year and 125 per cent rules) into these investments by fund members. There would be a restriction on funds of amounts over one's $3 million cap, and taxation (of withdrawals from taxed arrangements) would apply to lump sums withdrawn prior to age 60.

Our preferred option recommends that trustees be given the option to report allocations to fund income, including realised capital gains and losses, where they are able to do so. This would provide a fairer representation of the income paid in a fund. SMSFs, as well as certain APRA-regulated funds, including platforms such as wraps and Retirement Savings Accounts (RSAs), could easily provide this information on behalf of their members.

Finally, it is important to note that the proposed changes to superannuation legislation will require additional reporting, which will incur a cost to funds and members.

Adjusting the current TSB to account for withdrawals and contributions

The proposed method for calculating earnings adjusts for inflows and outflows that affect the closing TSB positively or negatively, ensuring that changes in TSB reflect earnings generated within superannuation. References to withdrawals and net contributions in the earnings formula are not meant to cover all cash flows throughout the year, rather they are meant to adjust for events that would otherwise skew the earnings calculation due to their direct impact on an individual's TSB at the end of the financial year.

Withdrawals made by an individual are added back to the current TSB to reflect what their TSB would have been if the withdrawals had not been made. This adjustment is made to prevent withdrawals from being counted as negative earnings generated within superannuation.

We note that the formula treats any withdrawals paid out as death benefits in the same way, whether these are paid to dependants or non-dependants. However, the benefits tax rates generally do not tax benefits paid out to dependants. We question whether the formula is consistent with this policy.

Adjustments where previous TSB is less than $3 million

If an individual's TSB in the current financial year is more than $3 million after adjusting for withdrawals and contributions, but their previous financial year's TSB was less than $3 million, their previous year's TSB will be adjusted to $3 million for calculating earnings. This approach ensures that any growth below the $3 million threshold is not counted as earnings.

It is also important to note that this calculation appears to only work the first time that an individual's TSB breaches the $3 million threshold, as any future investment losses which brings the individual's TSB below $3 million will be made available to offset future earnings figures for the purposes of future TSB increases back above the threshold. This must be clarified.

Negative earnings

If investment losses or fund expenses cause an individual's TSB to decrease at the end of a financial year, this will be recognised in the earnings calculation and result in negative earnings. The negative earnings can be used to offset any future positive earnings on a gross basis, without expiration, and over multiple years. Capital losses included in negative earnings can be used to offset future positive earnings related to income, such as rent and interest.

Adjustments where current TSB is less than $3 million

The paper explains that adjustments would be made to the TSB calculation where an individual's current TSB falls below $3 million due to investment losses or other reasons. In such cases, the current year's TSB will be adjusted to equal $3 million for the purpose of calculating earnings, ensuring that negative earnings can be recognised and applied against future positive earnings.

Again, we note that losses due to negative investment earnings may reduce one's balance below $3 million. However these losses are lost permanently if one leaves the superannuation system due to death, TPD and withdrawals. To avoid such an inequitable outcome, we recommend that the tax be assessed as a refund in the situation that one's assessed earnings are negative.

Tax liability

A flat rate of 15 per cent tax will be imposed on the proportion of earnings that exceeds $3 million, and this tax will be levied directly on individuals. The amount of tax payable cannot be reduced by deductions, offsets, or losses under the personal income tax system. The ATO will calculate liabilities based on information reported by superannuation funds and notify individuals of their assessments. Assessments can only be completed after the funds have reported all of the required information, including responding to information requests from the ATO about withdrawals for specific impacted members. This mostly affects APRA-regulated funds, as SMSFs already provide most of this information in the fund's annual return.

Paying liabilities

Individuals who have excess contributions or Division 293 tax liabilities would have the option to pay the amount owed by releasing funds from their superannuation or paying from external funds. Trustees managing SMSFs and APRA-regulated funds must comply with superannuation laws, including developing and regularly reviewing an investment strategy that considers diversification and liquidity of assets to meet expected cash flow requirements and discharge existing and future liabilities. Compliance with these requirements is crucial in managing the liquidity of the superannuation fund.

Trustees are expected to manage liquidity, having regard to expected cashflow requirements and prospective liabilities. However, SMSFs are presently permitted to have portfolios consisting of 100 per cent business real property. Large variations in asset valuations year to year, which take them over the $3 million threshold, may result in unexpected tax liabilities, presenting new liquidity risk to such funds.

A solution to this problem may be to allow funds presently in this situation and meeting certain criteria, to take on future tax debts to be paid in full once assets are disposed of, or in part at a date prior to such a point. A future tax debt would allow such funds to continue following existing investment strategies without the need to sell assets.

Defined benefit interests

The Government plans to modify the approach outlined previously to ensure that defined benefit interests are treated comparably to non-defined benefit interests. This will involve valuing defined benefit interests for the $3 million threshold and finding an approach to tax defined benefit interests in a similar manner to earnings in accumulation interests. The value of defined benefit interests should count towards an individual's TSB, which is then tested against the $3 million threshold. Those with other superannuation interests may also be impacted. The TSB valuations for defined benefit interests in the pre-pension phase depend primarily on a withdrawal benefit calculation, while in the pension phase the TSB uses the value that contributed to an individual's transfer balance cap at the time the pension commenced. A range of mechanisms could be used to provide commensurate treatment for untaxed defined benefit interests exceeding the $3 million threshold proposed, including taxing benefits paid from the interest in the pension phase.

We note that the costs to funds presently paying defined benefits to members will increase due to the need for specialist actuarial advice and point out that these costs will be borne by all fund members, not just those affected by this change.

Constitutionally protected persons

Constitutionally Protected Funds (CPFs) cannot be directly taxed due to constitutional limitations, whether they are defined benefit or alternative arrangements. Some members of CPFs may also have additional constitutional protections and are thus considered 'constitutionally protected persons'. Therefore, modifications may be necessary to maintain the tax-exempt status of CPF interests. However, CPF interests will still need to be included in a person's TSB to ensure that any earnings on their other superannuation interests outside of CPFs are subject to the proposed tax.

Whilst this appears to sidestep the issue of incorrectly taxing CPFs, there are equity issues where taxpayers are subject to an assessment on earnings over $3 million on funds that are only in CPFs. Where this happens, the consultation paper is not clear on whether the only option for affected members is for assessments to be paid for out of non-super assets. This must be clarified prior to legislation.

Reporting process for funds

While it is intended that existing reporting requirements will be used to minimize the regulatory impact of the proposed taxation changes, it is expected that some additional reporting will be required to support the ATO in calculating tax liabilities. This could include reporting on benefit payments by APRA-regulated funds. SMSFs already report benefit payments at the member level on an annual basis. The ATO may receive this information directly from superannuation trustees, either through changes to the general reporting requirements, specific requests for information, or a combination of both. The specific changes to reporting requirements will depend on the earnings calculation methodology.

One-off reporting represents a cost to funds that will ultimately be paid for by members of the fund. It is likely to result in cost duplication if data fields are eventually included in Member Account Attribute Service and Member Account Transaction Service (MAAS/MATS) reporting. Members using funds to pay for the tax will create additional reporting and system changes, and it is likely to flow into costs to members more generally. Furthermore, sourcing all of this information will require the ATO to build new systems, which will add to the cost.

The government must assess the costs and benefits of putting interim reporting in place which is to eventually be made obsolete by new MAAS/MATS reporting which will also incur costs and benefits, some of which will be the same as the interim reporting. Unnecessary duplication should be eliminated wherever possible.

Other comments

We understand that there will be consultation on exposure draft legislation in relation to this measure around the time of the federal Budget this year. CPA Australia looks forward to such a consultation but notes that portions of this measure (such as in relation to defined benefits and longevity-focussed income streams) require considerable consultation before legislation can occur.

References

Knox, D. et al. (2022) *Mercer CFA Institute Global Pension Index 2022*. rep. Mercer, CFA Institute, Monash University. Available at: https://tinyurl.com/3zv5h9xb (Accessed: April 15, 2023).

Appendix: Modelling assumptions

Taxation comparisons of a superannuation fund interest taxed at a notional 30% under this proposal compared to an equivalent investment in an insurance or friendly society bond

1. Comparison is between an investment in a superannuation fund and an insurance or friendly society bond, as commonly provided by life insurers or friendly societies.

2. Investments are subject to identical investment strategies where a portfolio consisting of eight assets as well as cash are reweighted annually. Eight assets have been synthetically derived from past performance of assets contained in the S&P/ASX 100 index. Dividends paid are assumed to be fully franked.

3. Portfolio consists of the following assets:

	Portfolio weighting	Expected returns	Standard deviation	Dividend yield
Tech Innovator	17.00%	14.50%	22.30%	2.00%
Green Energy	17.00%	9.20%	18.80%	1.50%
Healthcare Giant	17.00%	11.80%	15.50%	3.00%
Consumer Discretionary	17.00%	13.20%	20.10%	1.80%
Industrial Titan	17.00%	8.70%	16.60%	2.50%
Medium Marvel	5.00%	12.70%	18.50%	2.50%
Resources Digger	5.00%	10.50%	21.30%	4.00%
Cash	5.00%	2.70%	1.64%	0.00%
Total	100.00%			

4. Dividend yield from investments is fixed over the course of investment and reinvested back into the assets where they originated.

5. Portfolio is rebalanced to original weightings annually.

6. All holdings have been held longer than 12 months.

7. Assets are realised during rebalancing on a FOFA basis.

8. Asset returns are assumed to be uncorrelated and normally distributed and are credited at the end of the year.

9. Initial share price of all assets (and disposed assets) assumed to be $1 each. CGT discount available for all asset disposals.

10. Dividends reinvested are rounded down to the nearest share.

11. Initial portfolio balance in both investments: $1,000,000.

12. Dividends are fully franked and are paid once annually at the end of the year.

13. No contributions or withdrawals.

14. No insurance premiums are paid and no insurance benefits available.

15. Superannuation funds are invested and subject to tax on earnings at 15 per cent in the accumulation phase only.

16. Portion of taxpayer's superannuation invested are entirely over the $3 million threshold. The first $3 million of the taxpayer’s portfolio is not intended to form part of the amount invested in the simulation.

17. This is a 10-year simulation only. 2035 is the end year in this simulation. Comparisons of less than 10 years are complex due to 10-year rule applying to insurance and friendly society bonds. Comparisons of more than 10 years are complex due to the need to include acquisition prices of investments made subsequent to the commencement year which is more likely over longer periods.

18. Number of iterations run during simulation is 10,000.

19. Dollar-based administration fees set at $200 p.a.

20. Percentage-based investment management fees set at 0.60% of opening balance.

21. Fees charged once annually at the end of the year.

22. Values have not been adjusted for inflation.