Actuaries Institute.

Tax Shakeups Needed to Simplify Superannuation System

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A three-pronged tax reform package to make superannuation less complex, more equitable and sustainable has been outlined in a new discussion paper commissioned by the Actuaries Institute.

At the heart of the reforms proposed by the paper's authors, actuaries Richard Dunn, Michael Rice, Jennifer Shaw and Alun Stevens, is a plan to apply a uniform tax on earnings across all accumulation and retirement accounts.

The paper also suggests introducing a tax on very high withdrawals in retirement and simplifying current tax rules for bequests. The final plank of their reforms involves applying the same tax treatment to concessional and non-concessional contributions once invested in a fund.

The authors argue the changes will:

- simplify how superannuation is invested and allow consumers to have just one account
- improve efficiency by more actively encouraging retirees to draw down their superannuation to fund their retirement
- save about $1 billion in fund operational costs per year over the long term
- improve equity between younger and older taxpayers.

Actuaries Institute chief executive Elayne Grace said the paper was commissioned to help stimulate debate about meaningful tax reform in Australia's $4.1 trillion superannuation system.

"The authors have proposed well considered and holistic reforms. While views on superannuation tax reform vary widely, we welcome constructive debate about ways to improve equity within the system and deliver better value," she said.

The paper suggests that the existing system of a 15% tax paid on superannuation earnings in the accumulation phase, with zero tax paid by retirees, could be replaced by a uniform tax of about 10 per cent. This would enable a simpler system where people could have just one super account, build stronger balances from when they begin working, and save money on fees.

The second reform would involve taxing retirees who withdrew high amounts from their superannuation funds, whether as lump sums and/or pension benefits. The thresholds could be set at high levels, such as $250,000 and $150,000 per annum, respectively, with compensation for any retirees adversely impacted provided through adjustments to the Age Pension, for example. These changes would encourage retirees to use their superannuation in retirement.

The current system of tax on bequests would also be made fairer, with the 17% tax applied at age 67 instead of the current age 60 and tax-free thresholds reflecting whether the payment is to a dependent or non-dependent beneficiary.

Finally, the authors propose further simplifying the super system by removing the distinction between the tax treatments currently applied to concessional (tax deductible) contributions and non-concessional contributions once they are invested in a super fund.

"We have a superannuation system that's working, but it's one of the most complex in the world," Mr Dunn said. "Our proposals make super simpler for consumers and funds, while improving equity across the system. Further, the reforms encourage people to spend their super by reducing the attraction of using super to accumulate tax-free bequests."

Ms Shaw added: "We believe the changes, particularly the tax on large benefits, are aligned with the objective of super, which is to preserve savings to deliver income for a dignified retirement. They would leave the system largely unchanged for most retirees and still allow people to make large withdrawals for their immediate needs, for example paying off a mortgage or healthcare."

Richard Dunn and Jennifer Shaw are available for interview.

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Actuaries use data for good by harnessing the evidence to navigate into the future and make a positive impact. They think deeply about the issue at hand, whether it's advising on commercial strategy, influencing policy, or designing new products. Actuaries are adept at balancing interests of stakeholders, clients, and communities. They're called upon to give insight on complex problems, they'll look at the full picture. Actuaries analyse the data and model scenarios to form robust and outcome-centred advice.

Figure 1: How super could be taxed[2]

Proposal 1 Uniform low tax rate on lifetime earnings in super

Problem: Separate rates under current rules create complexity, cost and multiple accounts

Current Rules

- **15% tax in Accumulation Phase**
- **No tax in Retirement Phase** Subject to moving super into a retirement account and the Transfer Balance Cap ($1.9m as of 1 July 2024)

Figure A: Headline Tax Rate on Earnings in Super

Note: Government has proposed an additional 15% tax on earnings from superannuation balances exceeding $3 million.

Proposed Rules

A uniform rate on earnings

- **For example, a uniform rate of ~11%** would be revenue-neutral for one decade

Proposal 2 Retirement benefits remain tax exempt except for large withdrawals All smaller super bequests become tax exempt

Problem: Retired members are not encouraged to steadily spend their super during retirement

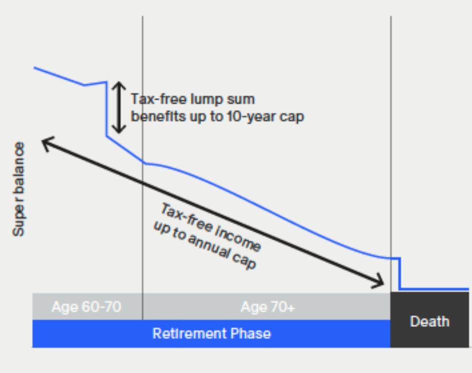
Current Rules

Tax-free retirement benefits from age 60 for both income and lump sum withdrawals (no upper cap)

Bequests for age 60+

- 17% tax on bequests to a non-dependent beneficiary
- No tax on bequests to a dependent beneficiary

Figure B: Taxation of retirement benefits (illustrative scenario)



Proposed Rules

- **Tax-free lump sum benefits from Age 60-70** Up to ~$250,000 - $566,000 in total
- **Tax-free retirement income benefits** Up to ~$150,000 - $190,000 each year
- **Excess withdrawals** taxed added to personal income and taxed

Bequests for age 67+

- 17% tax on any part of a bequest that exceeds ~$500,000
- A higher tax-free threshold of ~$2m could apply for dependent beneficiaries

Proposal 3 Treat all contributions into super the same once made

Problem: Treating concessional and non-concessional contributions differently once in super creates complexities

[2] The Actuaries Institute is canvasing proposals for discussion that aim to make super simpler to invest, easier to spend and fairer with bequests.