"WEALTH FOR TOIL"

or SAFETY NET DEPENDENCY

- Future retirees face a 35% reduction in super due to Superannuation Guarantee (SG) taxes
- Conversely, they could receive at least 55% more
- Reductions cause an increase in social security dependency
- This increased dependency is typically between 35% and 65%
- Total SG taxes are far exceeded by greater social security liabilities
- Even after rescue by the safety-net the retiree is typically 25% worse off
- Accordingly future retirees will have 20% less spending power
- ***Taxing to a point that increases social security is retrograde***
- ***Retrograde SG taxes will reduce future national savings by over 30%***
- Conversely, future total super accounts should be over 40% greater
- SG taxes should not be the cause of increased future Social Security liability
- Substitute revenues can be easily achieved by taxing high-end accounts
- Such accounts will typically be held by the top 25% of wage earners
- SG tax should not apply until income accruals reach 80% Average Weekly Earnings

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Australia's current taxation laws applying to superannuation are illogical and unfair.

The $1.4 trillion investment in superannuation contributes about $28 billion p.a. to revenue, ie 2%. Currently this 2% is raised through a 15% tax on contributions, and 15% tax on fund earnings – approximately $12 billion and $16 billion respectively.

A future retiree's benefits could be enhanced by at least 55% if neither of these taxes were applied to average people. Consequently, a superannuation contribution of around 10% (untaxed) would produce a similar result to a 15% guarantee that is taxed in the present manner. I have used an earnings rate of 8.2% on untaxed examples and an earning rate of 7% on the taxed examples (7% being 85% of 8.2%).

Following is a snapshot presented to draw attention to the anomalies in the system. In order to facilitate better understanding, I have resorted to a Geoffrey Robertson 'Hypothetical' based on people born from 1950 and, presumably living up to and beyond 2030, after having served around 48 years in the workforce – and retiring from 2015. So, I have assumed that one worker has commenced work every year since 1967, and over the 48 year period of employment the annual tax revenue under this proposal would be around $110,000 and $140,000 respectively, short of the current two 15% arrangements.

By setting aside the future aspiration to increase the superannuation guarantee to 15% there will be significantly greater future revenues for both individuals and companies, and consequently taxation receipts. So, let us not concern ourselves with the 'loss' of the contributions tax as the above-mentioned revenues will adequately compensate.

The 33rd percentile and the 50th percentile figures in this illustration are derived from the latest available taxation statistics (2009-2010). Real wage scenarios are used through to 2011 and 1.5 net real wage productivity increase beyond that point. Immediately it is clear that the total accumulation for these 48 workers taxed under the Keating Superannuation Guarantee would be $9,195,000; whereas the accumulation under the untaxed proposal would be $13,139,000 (50th percentile) – 43% greater.

The 33rd percentile will always be significantly social-security dependent. For simplicity these illustrations are based on the assumption that for every additional dollar earned from either private super or personal exertion, social security dependency is reduced by 50c in the dollar. Any minor distortions in this approach are of little significance.

In the ordinary income tax system the top 25% of wage earners contribute more than two-thirds of the tax revenue. Similarly superannuation should only be taxed on the high-end accounts where accumulations produce an income which far exceeds the social security safety net; and such taxes should then be applied at 30% and not 15%. These higher income earners will still have a much better accumulation than they enjoy under the current system and the government's revenue might even improve directly and also indirectly, through reduced arbitrage.

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Policy makers need the correct information to consider proposed policy.

The question they must ask themselves is whether the $140,000 of tax revenue is a good thing for the country's economy if our capital accounts are down by $4 million. Conversely if the $4 million is not lost to the investment sector, then tax on corporate earnings could quite reasonably largely compensate the Treasury for this $140,000. *However, it is important to consider that higher performing superannuation will cause a significant reduction in future social security expenditure.* Conversely, low performing superannuation funds will increase social security dependency.

The 50th percentile. Policy makers please consider that in this snapshot of people from 1950 and, we assume, living until 2030 and beyond, there will be 19 retirees drawing at least $11,113 extra in social security, or around $211,147 p.a. This far exceeds the $139,719 achieved in revenue; by such a margin that probably fully negates any statistical or analytical error that may have occurred in my assumptions. Obviously there is a need for simplification; however, I do not let this need exceed the need for accurate analysis. Statistically, widows live several years longer than widowers. By mixing the singles figures with the married on a ratio of 1:2, the $11,113 reduces to $9,109.00 average. This totals $173,000 which still far exceeds the $139,719.

And for those in the 33rd percentile, policy makers please consider that in this snapshot of people born from 1950 and, we assume, living until 2030 and beyond, there will be 19 retirees drawing at least $8,400 extra in social security or around $159,600 per year which far exceeds the $109,344 achieved in revenue; again by such a margin that probably fully negates any statistical or analytical error that may have occurred in my assumptions.

Under my proposal the average **full time** worker (74th percentile) will have no dependency on social security. Analysis clearly demonstrates the cost to social security caused by the current system. Obviously taxation is pure humbug when it interferes with activity and investment to the point where the net gain is zero in terms of government revenue and negative in terms of personal enterprise and investment.

My research details that the SG tax raised on our snapshot of 48 workers is less than the extra moneys that the social security department has to pay to the 19 retirees.

The power of compound interest. You don't have to be Einstein to realise that the combined effect of the 15% contributions tax and the 15% tax on earnings inhibits personal and national wealth. If $850 was invested at 7% for 48 years it would generate $20,400. If $1000 was invested at 8.2% for 48 years it would generate $40,600 – almost twice as much!

I do not see why I should have to apologise for pointing out the arithmetical obvious. However, Keating still carries a lot of a clout amongst the Scribes and Pharisees of our society. According to one of Keating's biographers his Departmental head

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dreamt up the Superannuation Guarantee as a compensatory gesture to the Union Movement in place of excessive wage demands. It is quite apparent that the combination of these two taxes has gouged our super funds of the best part of $350 billion in accumulations. This tax gouge quite probably exceeds the inputs over the past 20 years of the blue collar and miscellaneous workers who were added to the super pool through the Superannuation Guarantee – and whose employers were compelled to make contributions.

EXTRACTS FROM TABLES (Tables available upon request)*

Value of fund 2015	(50th percentile)		(33rd percentile)	
Untaxed	$13,139,171		$10,282,715	42.90% EXTRA
Taxed	9,194,953	69.98%	7,195,970	
Retiree's A/c				
Untaxed	587,561		459,825	58.48% EXTRA
Taxed	370,752	63.10%	290,151	
Super Income				
Untaxed	$48,180		$37,706	85.64% EXTRA
Taxed	25,953	53.86%	20,311	
Safety Net				
Couple				
Untaxed	3,163			22.16%
			8,400	49.13%
Taxed	14,276		17,098	
Single				
Untaxed	-6,012		-775	ZERO
Taxed	5,102		7,923	
Total Disposal Income				
Couple				
Untaxed	51,343			27.62% EXTRA
			46,106	23.25% EXTRA
Taxed	40,229	78.35%	37,408	81.10%
Single				
Untaxed	48,180			55.15% EXTRA
			37,706	33.59% EXTRA
Taxed	31,054	64.45%	28,233	74.87%
Social Security Dependency				
Couple	52.38%		62.74%	
Single	28.22%		43.83%	

E&OE *If you have access to employee or fund files you may like to do your own calculations.
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