OFFICE OF THE HON PETER DUTTON MP
THE MINISTER FOR REVENUE AND ASSISTANT TREASURER

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Dear Mr Marinis

Thank you for your letter of 13 April 2007 to the Treasurer, concerning superannuation. Your letter was referred to the Minister for Revenue and Assistant Treasurer, who has asked me to respond to you. I apologise for the delay in responding.

Thank you for your comments and words of support for the Better Superannuation reform. From 1 July 2007, the Better Super changes will increase retirement incomes, simplify the taxation of superannuation, provide more flexibility and choice in how superannuation can be accessed and improve incentives to work and save.

Given the removal of reasonable benefit limits (RBLs) and tax on superannuation benefits, the limit on superannuation contributions plays a key role in maintaining the fiscal sustainability of the system. As you are aware, a limit on concessional (deductible) contributions of $50,000 per person per annum applies from 1 July 2007.

In addition, a cap of $150,000 a year applies on the amount of non-concessional contributions a person can make (or receive) in superannuation. As a concession, people under age 65 are allowed to bring forward future entitlements of two years worth of contributions. This means a person under age 65 is able to contribute $450,000 over three financial years without exceeding their non-concessional contributions cap, for example to accommodate 'one off' contributions (such as those from an inheritance).

Under the superannuation guarantee (SG) arrangements, all employers are required to make superannuation contributions to a complying superannuation fund on behalf of their eligible employees or incur the SG charge. The minimum level of employer superannuation support under the SG arrangements is 9 per cent of an employee's notional earnings base. The Government believes that this strikes a balance between the retirement needs of employees and the expense placed on employers due to the SG.
The SG arrangements only set out minimum contribution requirements. Employers and employees are able to negotiate a higher rate of employer contributions if they wish.

The Government has introduced a number of initiatives that are designed to encourage people (including women and the low paid) to save for their retirement in order to secure a higher standard of living than would be possible from the Age Pension and the SG system. It supports this commitment with significant taxation concessions and other incentives to encourage individuals to undertake these savings.

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In addition, the Government's co-contribution initiative currently matches eligible personal superannuation contributions made by qualifying employees with incomes less than $58,000. Eligible personal superannuation contributions made by a person are matched at $1.50 for every dollar contributed. This is subject to the maximum co-contribution of $1,500 for those persons on incomes up to the lower threshold of $28,000. The maximum co-contribution is reduced at a rate of 5 cents for every dollar of income (assessable income and reportable fringe benefits) over the lower threshold, and phases out at the upper threshold of $58,000.

To further benefit retirees and improve incentives to save, the Government will halve the pension assets test taper rate from $3 to $1.50 per fortnight from 20 September 2007. This change will boost the retirement incomes of asset-tested pensioners and increase the number of people who are eligible for a part pension and the associated concessions.

The Financial Literacy Foundation has been established by the Australian Government to give all Australians the opportunity to better manage their money. The Foundation was launched on 6 June 2005. Information about the Foundation and Government initiatives to raise community awareness about financial literacy can be obtained from www.understandingmoney.gov.au. The Australian Government has also implemented an information campaign to increase awareness of the Better Super reforms and of the benefits of saving for retirement.

As part of the Better Super reforms, there will be changes to the taxation treatment of death benefits that will see a reduction in tax in some cases on death benefit payments made on or after 1 July 2007.

The reforms maintain the distinction that death benefits paid to dependants would be taxed more concessionally than death benefits to non-dependants. A death benefit received by a non-dependant will continue to be taxed at concessional rates. A dependant includes a spouse, child under 18 or any person that is financially dependent on the deceased or in a financial interdependency relationship with the deceased.

The Government supports the distinction between benefits paid to dependants and non-dependants as it recognises the special financial circumstances of dependants. The additional tax relief provided to dependants assists in alleviating any financial hardship that they may be enduring as a result of the death of the person upon whom they were financially dependent.

Abolishing tax for lump-sum death benefits paid to non-dependants would add to the cost of the plan, while not assisting people most in need.

Regarding your proposal to further reduce super taxes, the Government seeks to strike a responsible balance between its key goals of maintaining a sound budget position, meeting the higher cost of defence, education, health and other priority programmes and the desire to provide lower taxes for individual taxpayers.

The Government thanks you for the time you have taken to make your suggestions for improving our superannuation system. I trust this information will be of assistance to you.

Yours sincerely

Chris Leggett
Departmental Liaison Officer