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6th September 2011

Senator
Commonwealth Offices
ADELAIDE SA 5000

Dear Senator,

SUPERANNUATION

I write to seek your help and influence in addressing an inequitable situation which I believe currently exists in our Australian superannuation system.

The federal government, under the watch of Senator Shorten, is currently supporting the emergence of system which penalises the ordinary (and less well paid) investor in favour of high net worth investors.

I refer to the current anomalous Excess Contributions Tax regime, and I make these comments after 15 years as a financial adviser and someone who employs 10 people working full time administering over $90 million in retirement savings for South Australians.

The recent budget announcement to allow the reversal of one (only) excess superannuation contribution of no more than $10,000 was in part recognition of the harshness of the current rules, but it did not go far enough. Even with this small concession, the scope for error for ordinary hardworking Australian taxpayers remains high, as does the penalty tax, which can be up to 93%.

Given that most excess contribution payments are the result of reporting or similar errors which can occur at the administrative level as well as at the coal face, this penalty is at odds with the general interest charge applied to tax returns containing errors or omissions (which can be amended within three years of lodgement). At worst, illegal tax avoidance schemes under Part IV (a) attract a maximum tax penalty of 46.5%.

To highlight a further anomaly, highly paid professionals can make Concessional Contributions to super of up to $450,000 and only suffer the pain of paying their marginal tax rate. It's hard to see how such a prospect discourages high net worth investors (around whom the current contribution caps and the ECT were supposedly designed) from directing large amounts to super.

Turning to the bigger picture, I would like to see a more reasonable system of super savings, one which had a lifetime limit – say $1,500,000 adjusted for CPI. This approach would allow people with fluctuating incomes, (for example, farmers with a first bumper year after drought to contribute above their current age based limits, or mothers returning to the workforce, to catch up on missed super savings) without running the gauntlet of the current tax penalties.

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Not everyone has a career cash flow which is smooth and predictable. People stop work to have children, there are many Australian small businesses which have varied incomes, and not everyone does all their work for the one employer. If a contribution limit is required, an indexed lifetime limit would facilitate this approach.

I would welcome the opportunity to discuss these views with you or your staff; please feel free to contact me if you would like to further information or clarification regarding any of the points raised.

Sincerely

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategist
Authorised Representative