



TREASURER



NO. 40

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SAVINGS: CHOICE AND INCENTIVE

Tonight the Government has announced measures to encourage private saving and enhance Australia's retirement income system. The measures provide an incentive to save in a way which is fair, allowing individuals to choose the form most suited to their needs, recognising that individuals need to save for life cycle needs as well as for retirement. The superannuation system will be made simpler and more flexible, offering individuals greater choice and control over their savings.

The Government will:

- Introduce a taxation rebate for savings. From 1 July 1999, a savings rebate of 15 per cent (up to \$450) will apply on up to \$3,000 of personal (undeducted) superannuation contributions and/or net income from a range of savings or investments. A transitional rebate up to \$225 will apply in 1998-99. All resident individual tax paying savers will qualify.
- Freeze the trustee tax rate applying to friendly societies and proceed with the review of the tax treatment of the life insurance business of friendly societies and life insurance companies.
- Amend the definition of 'complying' pensions and annuities for pension Reasonable Benefit Limit purposes.
- Provide employees with greater choice as to the complying superannuation fund or Retirement Savings Account to which compulsory Superannuation Guarantee (SG) and award superannuation contributions are made.
- Allow employees earning from \$450 to \$900 per month from an employer to receive salary and wages in lieu of compulsory SG contributions, to the extent that SG contributions exceed award superannuation obligations, and if their employer agrees.
- Amend the preservation arrangements so that:
 - From 1 July 1999, all future superannuation contributions and earnings will be preserved until retirement age, other than in limited circumstances.
 - The preservation age will be gradually increased so that by 2025 it will be 60 years.
 - From 1 July 1997, the early release of superannuation benefits will be streamlined and tightened to ensure superannuation is directed towards providing for retirement income.

Details of these measures are provided in the attachment to this press release.

CANBERRA
13 May 1997

TAXATION REBATE FOR SAVINGS

Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
-	-350	-1370	-2040

Explanation

Part of the funds set aside in the outlays forward estimates for the delivery of the 'LAW' tax cuts as matching Government superannuation contributions (as described in the 1995-96 Budget) will be applied to introduce a broadly based savings rebate through the tax system. The rebate will provide assistance for individual taxpayers who save or invest, and encouragement for potential savers or investors. Income from a broad range of savings and investments will be eligible for the rebate. This will enable individuals to save or invest in the form most suited to their needs and will avoid introducing further distortions into the financial system.

A taxation rebate will be available for resident individual taxpayers with respect to their undeducted member superannuation contributions and net personal income from other savings and investments up to an annual cap of \$3,000. In 1998-99, a transitional rebate rate of 7.5 per cent will apply providing an initial rebate of up to \$225. From 1 July 1999, the rebate rate will increase to 15 per cent providing a maximum rebate of \$450 per annum. The savings rebate will not be means tested. It will provide equitable assistance to private savings, that recognises the importance of superannuation savings, but also provides assistance for individuals who save for other life cycle needs. The savings rebate will also benefit individuals who have retired and are living on the returns from their savings.

With respect to superannuation contributions, the savings rebate would apply to the amount of superannuation contributions made by employees or the self-employed from post-tax income. For personal superannuation contributions made by low to middle income earners, the first \$1,000 of contributions would attract both the savings rebate and the existing 10 per cent rebate available to individuals earning up to \$31,000.

The savings rebate will also apply to net personal income from savings and investment (ie unearned income less allowable deductions relating to that income). This would include such items as interest receipts, dividend income (grossed-up by imputation credits), net rental income, net capital gains, privately funded pensions and annuities (including Commonwealth and State Government employee pensions), assessable life insurance and friendly society bond bonuses, partnership income, trust income and attributed foreign income. The savings rebate will also apply to net business income received by an individual, such as income derived from operating as a sole trader or a partnership.

The savings rebate will be calculated by the Australian Taxation Office from information in the individual's tax return. Taxpayers will need to provide information in their tax returns on their undeducted member superannuation contributions. Taxpayers will be able to vary their provisional tax in anticipation of the new rebate.

The above material is a full extract of the description of the measure as contained in *Budget Paper No 2: Budget Measures 1997-98*. This paper explains all outlays and revenue measures, and is available from Australian Government Bookshops or from the Treasury Internet site at <http://www.treasury.gov.au/budget>

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FREEZING THE TRUSTEE TAX RATE FOR FRIENDLY SOCIETIES

Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
-6	-29	-4	2

Explanation

In the 1993-94 Budget, the former Government announced that the friendly society trustee tax rate would increase from 30 to 39 per cent over the following three years. In the 1995-96 Budget, the former Government froze the trustee tax rate at 33 per cent until 1996-97 as it was to undertake a review of the taxation treatment of the life insurance business of friendly societies and life insurance companies. That review was not completed prior to the election. The friendly society trustee tax rate is currently legislated to increase from 33 to 39 per cent from 1 July 1997.

The Government will proceed with the review of the taxation treatment of the life insurance business of friendly societies and life insurance companies. The review will also cover all other taxation aspects of friendly societies' business.

Undertaking the taxation review in the context of the Government's consideration of the broader policy issues flowing from the Financial System Inquiry will enable the application of a consistent direction in the taxation and regulatory approaches for the financial market, and specifically for life insurance providers.

While the review is being undertaken, the trustee rate of tax for the life insurance business of friendly societies and other registered organisations will be retained at 33 per cent until 1998-99, and the rebate rate for taxable policyholders with such investments will be retained at 33 per cent until 1999-2000. This trustee tax rate will be increased to 39 per cent from 1999-2000, and the rebate rate increased to 39 per cent from 2000-01, unless other relevant amendments to the taxation treatment of friendly societies are made prior to that time.

The main objectives of the review will be to improve the efficiency of the taxation treatment of life insurance companies and friendly societies, improve the equity in the treatment of their investors and to ensure a more neutral taxation outcome for competing investment products. The review is also aimed at improving the certainty of the application of the taxation laws and to decrease compliance and administration costs.

The review will be undertaken by the Treasury and the Australian Taxation Office (ATO) and will involve ongoing consultation with the life insurance and friendly society industries. A joint Treasury/ATO Consultative Document is expected to be released in the near future for industry comment.

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BROADENING THE DEFINITION OF 'COMPLYING' PENSIONS AND ANNUITIES IN THE SUPERANNUATION INDUSTRY (SUPERVISION) REGULATIONS

Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
–	*	*	*

* The nature of the measure is such that a reliable estimate cannot be provided.

Explanation

Superannuants who take at least half of their total superannuation benefits in the form of a 'complying' pension or annuity can access the higher pension Reasonable Benefit Limit (RBL), currently \$869,440. 'Complying' pensions and annuities are defined in the Superannuation Industry (Supervision) Regulations (SIS Regulations).

The existing definition of 'complying' pensions and annuities will be amended. In addition to existing 'complying' products (ie non-commutable lifetime pensions and annuities) products purchased on or after 1 July 1998 which meet the following characteristics will also qualify as 'complying' pensions and annuities for pension RBL purposes:

- the term of the income stream contract must be fixed and must be for life expectancy (as set out in the Australian Life Tables prepared by the Australian Government Actuary) but can be a minimum of 15 years where life expectancy exceeds 15 years; and
- where the term of the income stream contract is for life expectancy (or a minimum of 15 years) the term must commence on or after Age or Service Pension age.

For these income streams, the other characteristics of 'complying' pensions and annuities for pension RBL purposes will remain largely as currently defined in the SIS Regulations.

Indexation of payments will be made optional for all 'complying' pension and annuity products.

These measures will provide for greater consistency between the social security provisions and the SIS Regulations governing 'complying' income streams for RBL purposes. It will offer superannuants a wider choice of 'complying' income stream products and promote greater competition in the provision of such products. In turn, this should place downward pressure on the cost to retirees of purchasing 'complying' income stream products.

The details of the legislation to give effect to these changes will be developed in close consultation with the superannuation industry and other interested parties.

This is consistent with the outlays measure titled 'Reform of the income and assets test treatment of income streams by the Department of Social Security and the Department of Veterans' Affairs' described in Part I of *Budget Paper No. 2* under the Social Security portfolio.

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CHOICE OF SUPERANNUATION FUND

Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
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Explanation

Legislation will be introduced, with effect from 1 July 1998, to provide employees with greater choice as to which fund receives compulsory employer superannuation contributions made on their behalf.

Employers will be required to offer new employees a choice of five (or more) complying superannuation funds or Retirement Savings Accounts (RSAs) to which such contributions could be paid. The five (or more) choices offered must include at least one RSA and at least one public offer fund. The employer must also include, subject to their existence, a relevant industry fund (or funds), an RSA provided by the institution receiving the employee's pay, and an in-house superannuation fund. Employers will be required to give employees 28 days in which to make their choice. Where the employee does not nominate a fund or RSA within the required time, contributions will be made to the fund or RSA nominated by the employer.

For existing employees, employers must provide a similar choice within two years of the date of effect of the legislation.

The employer will also need to provide a 'key features statement' prepared by each of the chosen superannuation funds or RSA providers. The employer must also supply any relevant application forms.

The employer will be bound by the employee's decision, and will be liable to pay the Superannuation Guarantee Charge for non-compliance. Employers will not, however, incur a penalty in cases where an employee does not nominate a fund within 28 days, or where the employee's choice is not able to be implemented. This will include circumstances where the fund nominated by the employee ceases to be a complying superannuation fund, or otherwise refuses or is unable to accept contributions.

Appropriate mechanisms will be developed to ensure that employers and employees can be certain that an election is correctly made, received by employers and acted upon. It will also be expected that employers will advise employees of all the consequences of their decision, such as the implications of an election to leave a defined benefit scheme.

Legislative amendments will also be made to override the specification of funds in Federal awards. However, for Constitutional reasons, the choice of fund legislation will not apply to employees working under State industrial awards. In this regard, the Commonwealth Government will ask the States to consider introducing complementary legislation to achieve choice of fund for individuals employed under State awards, where they have not already done so.

Furthermore, choice of fund provisions will not override provisions contained in workplace agreements as to do so would be inconsistent with the intention of the industrial relations legislative framework.

The choice of fund legislation will not apply to public sector arrangements to the extent that employer Superannuation Guarantee (SG) and award contributions are unfunded. This is because of the fiscal consequences associated with being required to fund the benefits of members transferring from partially or totally unfunded superannuation schemes.

The legislation will apply to defined benefit schemes. For these schemes, employers do not make contributions for any particular employee but contribute an amount recommended by the fund's actuary as being necessary to fund the liability to provide benefits under the scheme as a whole. It is possible that employees who exercise their choice to leave a defined benefit fund may receive reduced contributions. For example, employees may only receive the SG minimum employer contributions, rather than contributions at a rate consistent with the defined benefit scheme they have left. In such circumstances, employees will need to be informed by their employers of the full consequences of their choice.

To help implement employee choice of fund, this Budget provides extra funding to the Australian Taxation Office to ensure that an education package is prepared and delivered and so that administrative systems can be designed to allow choice of fund to work efficiently. The extra funding will also support both initial and ongoing inquiries and complaints handling.

In order to contain the costs which would be imposed on employers if employees frequently nominated a different superannuation fund or RSA, employers will not be required to act on an employee's changed nomination of fund within twelve months of acting on a previous nomination. At any time, employers would also only be obliged to contribute to one fund or RSA for any individual employee. Employers will be able to contribute to more than one fund or RSA for an employee, or accept a new choice more than once per year, if they wish to do so.

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OPTING OUT OF THE SUPERANNUATION GUARANTEE SYSTEM

Financial Implications (\$m)

1997-98	1998-99	1999-2000	2000-01
-8	-10.3	-11.3	-12.4

Note: The estimates represent the impact on revenue against the forward estimates which are based on the original estimates of the opting out measure provided in the 1996-97 Budget.

Explanation

In the 1996-97 Budget, the Government stated its intention to allow employees earning \$450 to \$900 per month from an employer the opportunity to receive wages or salary in lieu of Superannuation Guarantee (SG) contributions. The Government has now decided the mechanism for opting out of the SG system.

The proposal will apply from 1 July 1998 to 'eligible employees' receiving monthly salaries of \$450 to \$900. (In response to the Small Business Deregulation Task Force, the Government recently announced that the proposed \$900 per month threshold will be replaced by a threshold of \$1,800 over a period of two months for persons under the age of 18.)

Employees, by agreement with their employer, can opt out of SG arrangements on commencement of employment or once annually thereafter. Employees will be able to opt back into superannuation arrangements at any time.

Opting out will not override the effect of industrial awards. Employees will only be able to opt out of SG arrangements to the extent that an employer's SG liability exceeds any relevant award obligations. For example, if the employer had an obligation under an award to pay the equivalent of 3 per cent of a person's salary in the form of an employer superannuation contribution and the SG contribution rate was 7 per cent, then the employee could only opt out to the extent of 4 per cent of salary.

An employer will not be able to force employees or groups of employees to opt out. Rather, any decision to opt out must be initiated by the employee.

To help employees decide whether to opt out or not, this Budget provides extra funding to the Australian Taxation Office (ATO) to ensure that an education package is prepared and available to employers and employees.

The introduction of opting out has been delayed until 1 July 1998 to allow time for the ATO, superannuation funds and employers to prepare the necessary documentation and alter systems.

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IMPROVEMENTS TO SUPERANNUATION PRESERVATION ARRANGEMENTS

Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
-	-	-35	-105

Explanation

The former Government amended the preservation rules such that all superannuation contributions, other than a person's own 'undeducted contributions' (that is, contributions for which tax deductions have not been received) would be preserved, without reducing a person's access to existing unreserved benefits. However, the date of effect of these new rules has been twice deferred because the arrangements are complex and pose significant administrative problems for superannuation funds.

The Government has decided to improve and simplify the preservation rules by requiring that, from 1 July 1999, all contributions made by or on behalf of members be preserved on entry to a superannuation fund. All earnings of the fund from that date will also be preserved. These arrangements will also provide that the greater of a member's undeducted contributions and the member's resignation/retrenchment benefits as at 1 July 1999, as well as the amount at 1 July 1999 of other unreserved benefits which individuals can currently access at any time, will not be preserved. This amount will not be indexed.

This approach to determining non-preserved benefits will overcome administrative problems associated with the previously legislated amendments to the preservation requirements, which were to have taken effect from 1 July 1998. The Government will consult with the superannuation industry in implementing these measures.

Improving the preservation arrangements will assist in meeting Australia's retirement income and national savings objectives. It will ensure that savings through superannuation are directed to their intended purpose, namely providing for retirement income. It is for this purpose that superannuation savings receive concessional tax treatment. Extending the preservation requirements to cover member superannuation contributions is also consistent with the provision of additional assistance to such contributions by way of the savings rebate.

Individuals will continue to be allowed to obtain early access to preserved benefits where the benefits are taken in the form of a non-commutable life pension or lifetime annuity on termination of gainful employment, subject to the terms of superannuation fund trust deeds.

The changes outlined above will also apply to superannuation savings held in Retirement Savings Accounts.

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INCREASING SUPERANNUATION PRESERVATION AGE

Financial Implications (\$m)

1997-98	1998-99	1999-2000	2000-01
–	–	–	–

Explanation

The Government has decided to proceed with a phased increase in the preservation age from 55 to 60 between the years 2015 and 2025. For someone born before 1 July 1960 the preservation age will remain at 55 years; for someone born after 30 June 1964 the preservation age will rise to 60.

This increase is consistent with the Government's pre-election commitment to maintain the timetable first announced by the former Government in 1992 (and reaffirmed in 1995) for increasing the preservation age.

Increasing the preservation age to 60 will reduce the gap between the preservation and Age Pension ages, and thus reduce opportunities for 'double dipping'.

Increasing the preservation age will also allow for the accumulation of a larger retirement benefit, and will therefore improve people's retirement incomes and reduce their dependency on the Age Pension.

Individuals will continue to be allowed to obtain early access to preserved benefits where the benefits are taken in the form of a non-commutable life pension or lifetime annuity on termination of gainful employment, subject to the terms of superannuation fund trust deeds.

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REFORMS TO EARLY RELEASE OF SUPERANNUATION BENEFITS

Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
-9.6	-10.2	-10.8	-11.4

Explanation

The Government will reform the current arrangements for early release of superannuation benefits, with effect from 1 July 1997. These changes will improve the administration of the system by the Insurance and Superannuation Commission and fund trustees. These measures will also address some abuses of the current arrangements.

The changes are as follows:

- Superannuation funds will be able to release benefits to a person who claims to have left Australia permanently only after that person has reached the preservation age. This is broadly consistent with overseas practice.
- The \$500 preservation threshold will be abolished. This threshold is now less relevant given the introduction of 'member protection rules' (which prevent benefits of less than \$1,000 from being reduced by administrative fees and charges). Small amounts can now generally be transferred or diverted to eligible rollover funds.
- The current ad hoc assessment of claims for release of benefits on grounds of severe financial hardship will be replaced with an objective test of hardship to be administered by fund trustees based on evidence that the member has received specified social security payments for a continuous period of twelve months (or a cumulative period of nine months for people aged 55 or over). This measure will result in less 'red tape' for applicants and be more equitable because the release of benefits will be targeted at those who meet objective tests of financial need under broad social policy parameters.
- Defined criteria to clarify the circumstances covered by the condition for release of benefits on compassionate grounds will be introduced. This will provide a more objective test for the release of benefits on compassionate grounds.

Release of benefits to members who meet these tests will still be subject to the governing rules of their fund. The current arrangements for allowing early release of benefits on the grounds of permanent incapacity remain unchanged.

The changes outlined above will also apply to superannuation savings held in Retirement Savings Accounts.

The Government will consult with the superannuation industry and other interested parties in implementing these new measures.

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