Super rules will sap certainty

Peter Costello

Few members of Parliament follow the details of tax policy. They can give a political view on various tax proposals such as the mining tax or the carbon tax. But few would be able to name the marginal tax rates and the thresholds at which they cut in. Fewer still have a grasp on how superannuation is taxed.

Which means they can easily be persuaded – regardless of the policy merits – to change superannuation laws for a perceived electoral advantage. At the moment Labor is floating a plan to tax superannuation entitlements worth $1 million as a "slug on the rich" to pay for spending in areas which are more fertile for votes.

When they find this does not raise enough money, the threshold will come down. But in the interim they will claim this tax will only affect millionaires. Who could oppose that? Who is likely to have an entitlement that large?

Well, leaving aside Julia Gillard, Wayne Swan and the rest of the cabinet, a person making contributions over 40 or 50 years could be in that category, or a person whose fund has done very well with earnings, or a person who has put a lot of their after-tax money into superannuation.

Not all payouts are the same. Some will comprise after-tax money, some will comprise long-term contributions and some won't.

A uniform tax threshold for benefits is not uniformly fair, which is why we used to have complicated rules (known as reasonable benefits limits, or RBLs) to try to take all these things into account. It was so complicated the rules were honoured more in the breach than they were in the observance. And the compliance costs were so high the government didn't bother chasing those who did not self-declare.

In May 2006, I released a plan to simplify all this by abolishing RBLs, introducing standard contribution limits – not age-related – and ending taxation of end benefits for the over-60s. That plan was subject to extensive consultation and discussion over a year.

It was implemented in 2007 with bipartisan support. Importantly, the revenue implications were thoroughly examined by industry, the opposition and signed off by Treasury – in writing and in oral submissions before parliamentary committees – as thoroughly sustainable. Nothing has changed.

But Labor unleashed a huge increase in spending on school halls and pink batts and the like. The budget is still in deficit and some are suggesting that superannuation tax concessions are now a problem. So let us be clear. Labor's problem is not superannuation. It is spending.

It has already been whittling away the contribution rules. In 2009 it cut the concessional amount that a person could put into superannuation from $50,000 to $25,000. In 2010, as part of the resource super profits tax (RSPT) it said it would "share the benefits of the mining boom" and reinstate the $50,000 concessional cap but only for over-50s – and from 1 July 2012.

The problem at the Commonwealth level is not a lack of spending plans. It is a lack of financing plans.

In 2011 it said it would delay indexation of the cap until 2014. Then in 2012 it said the $50,000 cap would be delayed a further two years – until 1 July 2014.

The contribution limit has been cut, partially reinstated, reduced by inflation and now delayed. It has been changed every year for the last four years. And it is yet to take effect.

There are still two more budgets and one election before the (current) mooted start date!

These announcements were not directed at improving the taxation of superannuation. They were desperate attempts to get more money into the 2012-13 financial year. Since Labor has given up its commitment to balance this year's budget, it could give up the half-baked measures which were only introduced for that purpose.

But it has plans for new spending on the National Disability Insurance Scheme (which is a spending scheme not an insurance scheme) and the "Gonski" proposal to spend more on schools.

When businessman David Gonski was asked to look at schools he was given no financial parameters. So he recommended more spending. He was not asked to consider how to fund it.

So tax increases are now squarely on the agenda. The problem at the Commonwealth level is not a lack of spending plans. It is a lack of financing plans.

In 1996 I introduced a surcharge on superannuation for higher-income earners. It led to enormous complexity and compliance costs. So in 2005 I abolished it. Labor opposed its introduction. Then they opposed its abolition! Since then they have re-introduced it.

So far so bad. But no further. These current proposals will introduce all the complexity of the old system. They will punish saving and they will undermine something that superannuation needs more than anything else – some certainty.

■ *Peter Costello was federal treasurer from 1996 to 2007.*