
POOLED SUPERANNUATION TRUSTS

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A case for reform

Current taxation arrangements are inconsistent

36.1 Pooled superannuation trusts (PSTs) are unit trusts that compete with life insurers and other entities for complying superannuation business.

36.2 The current arrangements for taxing PSTs were established to enable small and medium sized superannuation funds to pool their investments. An investor who holds units in a PST is exempt from tax on any investment returns from the PST. The rate of tax that applies to PSTs is 15 per cent.

36.3 The current arrangements would be inconsistent with the redesigned imputation system to apply to other entities under the new entity tax regime.

A strategy for reform

Apply the redesigned imputation system to PSTs

36.4 Applying the redesigned imputation system to PSTs would further competitive neutrality with other investment entities.

Key policy issues

What rate of tax should apply to PSTs?

Option 1: Tax PSTs at the company tax rate

36.5 Applying the redesigned imputation system to PSTs would ensure that investment returns are taxed at the investor's rate of tax. PSTs would be taxed consistently with other entities — including other unit trusts and life insurers.

36.6 The mechanisms for dealing with the refund of excess imputation credits (discussed in Chapter 15) would ensure that the investment returns from PSTs to complying superannuation funds and complying approved deposit funds (ADFs) would continue to be taxed at a rate of 15 per cent. The refund mechanisms would overcome any potential delays in bringing down the tax rate on the income assigned or distributed, from the company tax rate to

15 per cent. However, income retained by the PST would be taxed at the company tax rate.

36.7 In these circumstances PSTs would be competing for superannuation business directly with other entities, such as unit trusts, that are subject to entity taxation.

Option 2: Tax PSTs at the rate of 15 per cent

36.8 The main business of PSTs is complying superannuation business that is taxed at the rate of 15 per cent. There is the question of whether PSTs should continue as a dedicated pooling vehicle for superannuation entities and be taxed at the rate of 15 per cent.

36.9 Under this option, PSTs would be taxed on amounts not distributed at the rate of 15 per cent. This would be inconsistent with the taxation treatment of similar amounts retained by other entities, but a change over present arrangements would be that all profit distributions to investors would be taxed at the rate of 15 per cent.

Who should be able to invest in PSTs?

36.10 Currently PSTs can accept investments only from entities that are taxed at the rate of 15 per cent or are exempt from tax. Therefore, PSTs can accept investments only from:

- complying superannuation funds;
- complying ADFs;
- other PSTs;
- the complying superannuation business of life insurers; or
- certain tax exempt entities.

36.11 If PSTs are taxed at the company tax rate, the restrictions on who can invest in PSTs could be removed. That is, PSTs could accept investments from any entity.

36.12 However, if PSTs continued to be taxed at the rate of 15 per cent, PSTs would be able to only accept investments from complying superannuation funds, complying ADFs and other PSTs. As life insurers would be taxed on all their business — including their superannuation business — at the company tax rate, a consequence would be that life insurers would not be able to make any new investments in PSTs.

36.13 A possible transitional measure would be to allow life insurers to retain existing investments in PSTs for a period of, say, one year after the commencement of the new entity regime.