Chapter 37

# IMPLICATIONS FOR SUPERANNUATION FUNDS AND APPROVED DEPOSIT FUNDS

# A case for reform

## Current taxation arrangements are complex

37.1 Superannuation funds and approved deposit funds (ADFs) can currently transfer taxable contributions to life insurers or pooled superannuation trusts (PSTs). If a superannuation fund or ADF transfers all of its taxable contributions, it may not be required to complete a taxation return.

37.2 Taxable contributions include:

- contributions paid by employers;
- contributions paid by members that are allowed as a tax deduction; and
- eligible termination payments rolled over from an employer or an untaxed superannuation fund.

37.3 Practical difficulties which arise with these arrangements include:

- the transferring fund needs to retain sufficient taxable contributions to offset any tax deductible expenses incurred by the fund, as deductible expenses cannot be transferred (the associated calculations duplicating much of what would be required to complete a tax return);
- once the fund elects to transfer an amount to a life insurer or a PST the election is irrevocable; and
- some life insurers experience difficulties in identifying the amount of taxable contributions that are transferred from a superannuation fund or an ADF that the life insurer needs to include in its taxable income.

37.4 In addition, the calculations required to separate out the current pension exemption of superannuation funds involve complex actuarial calculations.

## Current taxation arrangements are inequitable

37.5 Superannuation funds are not taxed on any profit they make on current pension business. The arrangements that allow superannuation funds and ADFs to transfer taxable contributions to life insurers or PSTs are also inequitable. No other entity can transfer its taxation liability to another taxpayer. In addition, the shareholders of life insurers can access imputation credits reflecting part of the tax paid by the life insurer on behalf of the superannuation fund.

# A strategy for reform

## Apply the 15 per cent rate to taxable income

37.6 Reflecting the proposals in *A New Tax System*, superannuation funds would be taxed on the profit they make on their current pension business. This would be consistent with the proposals to tax life insurers on the profit they make on their immediate annuity business (Chapter 34).

## Prevent superannuation funds from transferring taxable contributions to life insurers or PSTs

37.7 Superannuation funds and ADFs would no longer be able to have another entity pay tax on their behalf. That is, superannuation funds and ADFs would pay tax on:

- all their taxable contributions; and
- all their taxable investment returns.

37.8 As a consequence, superannuation funds and ADFs would no longer be able to transfer taxable contributions to a life insurer or a PST.

37.9 This would remove the complexities and practical difficulties that currently arise with transfers of taxable contributions.

# Key policy issues

## How would the profit on a superannuation fund's current pension business be determined?

37.10 The profit that a complying superannuation fund makes on its current pension business would be determined by including in its assessable income all investment income underlying its current pension business and allowing a deduction for the interest credited to pensioners.

37.11 A complying superannuation fund would calculate the deduction for the interest credited to a superannuation pension in the same way that a life insurer would calculate a deduction for the interest credited to an immediate annuity (discussed in Chapter 34). The effect of the deduction would be to free from tax any returns attributed to the pensioner.