The Secretary
Review of Business Taxation
Department of the Treasury
Parkes Place
CANBERRA   ACT   2600

14 April 1999

Dear Secretary

Submission from the Board of Trustees of the State Public Sector Superannuation Scheme (the QSuper Trustees)

The QSuper Trustees welcome the opportunity to comment on the issues central to our Fund which have been raised in the Review of Business Taxation=s Platform for Consultation, and we set out our submission, as well as a background to the QSuper Fund, below.

Background

The Queensland Government provides superannuation benefits for its direct employees through the State Public Sector Superannuation Scheme (the QSuper Fund). The QSuper Fund is one of the largest superannuation funds in Australia, with over 350,000 members and over $6 billion in funds as at 30 June 1998.

The QSuper Fund operates under a master-trust style arrangement, and consists of a number of sub-plans - an active Defined Benefit Plan, three other closed defined benefit plans, an active Accumulation Plan, as well as post-retirement rollover and allocated pension products.

As the QSuper Trustees, we are responsible for all the sub-plans within the QSuper Fund. The rules of these sub-plans are contained in a single trust deed and under the master-trust style arrangement, members of all the sub-plans have access to the post-retirement products upon leaving Queensland Government employment.

Plan	Status	Members*	Balance*
QSuper Defined Benefit Plan	Open	120,742	$4.3 billion
QSuper Accumulation Plan	Open	210,003	$833.6 million
Closed defined benefit plans (QSuper State Plan, QSuper Police Plan, QSuper Fire Plan)	Closed	3,205	$250.6 million
Post-Retirement Products (QSuper Voluntary Investment Plan, QSuper Allocated Pension Plan)	Open	20,306	$1.08 billion

** As at 30 June 1998*

Under the terms of the governing legislation, the QSuper Trustees utilise the services of the Queensland Investment Corporation (QIC) as investment manager. The member and employer contributions to the QSuper Fund are pooled with other long-term investible Government funds, and with monies from other Queensland statutory authority superannuation schemes and bodies, and are invested by QIC in the QIC Investment Trust. The QIC Investment Trust is a diversified portfolio geared towards generating higher returns over the longer term, and has over $20 billion of funds under management, including investments in various sub-trusts.

Comments on the Review of Business Taxation Proposals

C **Flow Through Taxation**

The QSuper Trustees note that the Review of Business Taxation has proposed that a flow through taxation system be implemented for Collective Investment Vehicles (CIVs). As the trustees of a fund which invests over $6 billion of funds in CIVs, the QSuper Trustees fully support this proposal.

However, the QSuper Trustees note with concern that the definition of Awidely owned distributing trust≅ proposed by the Review is narrow, and many CIVs used by superannuation funds may not be included due to the fact that their ultimate multi-member ownership is not recognised. This exclusion from the definition of a CIV will result in extra costs being borne by fund members, as investment earnings will not be available on amounts paid as a withholding tax. This will also affect those who leave a fund after corporate tax has been paid but before an imputation credit has become available. To ensure that the retirement income of fund members can be maximised, we strongly urge the Review to include widely held CIVs in the group of CIVs deemed to be eligible for the flow through taxation benefits.

It is submitted that the definition of a CIV needs to adopt the Aultimate ownership principle≅ to achieve this. Given the large number of members which stand one step behind a superannuation fund=s investment in a CIV, the QSuper Trustees believe that the Aultimate ownership principle≅ will deliver a fair and equitable outcome for all superannuation fund members.

C **Taxation of Tax Preferred Income**

As investment funds are liquid and can flow freely between pooled investment vehicles and direct investment, the QSuper Trustees believe that it is appropriate for the taxation implications of the two investment vehicles to be similar. However, individuals investing through a CIV would be disadvantaged compared to direct investors if tax preferred distributions from the CIV were taxed. As such, the QSuper Trustees strongly favour the adoption of the full direct equivalence principle so that tax preferred income distributions from CIVs are not taxed.

C Rollover Relief

As noted above, the investment funds market is liquid, and any detrimental changes to the taxation treatment of CIVs may cause an outflow of funds from CIVs to direct investing. As a transitional measure, the QSuper Trustees would support the introduction of rollover relief measures to allow CIVs to restructure or vest assets as a result of any taxation changes, without triggering any unrealised taxation liabilities. The QSuper Trustees note that similar rollover relief was afforded to managed investment funds following the introduction of the *Managed Investments Act* in 1998.

If your Committee has any queries in relation to the matters raised in our submission, the Executive Director of the Queensland Government Superannuation Office, Mrs Rosemary Vilgan, would be pleased to assist. She can be contacted on (07) 3237 0201.

Yours faithfully

<u>The Board of Trustees of the State Public Sector Superannuation Scheme</u>