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The Productivity Commission
Superannuation Efficiency and Competitiveness Issues Paper
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Please find attached the submission from COSBOA to the

Superannuation Efficiency and Competitiveness Issues Paper

Yours Sincerely

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Superannuation Efficiency and Competitiveness Issues Paper

A response from the Council of Small Business Organisations of Australia

One of the great concerns for the small business community is the cost of employing people, not just in time and money but also in increased levels of personal stress for the employer.

In small business the employer is very rarely an expert on workplace relations. Yet they are expected to be an expert in this area as well as an expert on workplace health and safety, insurance, workers compensation, leasing requirements, competition law and the list goes on. That list includes superannuation.

Almost 90% of workplaces in Australia employ less than 20 people and over 60% employ less than 5 people. In 2012 that was almost 750,000 employing businesses, each run by a person or perhaps a couple.

In spite of these facts the workplace relations system is and always has been designed for paymasters, boards of directors and CEOs in the 10% of business – the largest businesses.

In the end the result of a confusing and expensive workplace relations is a negative impact on innovation, productivity and the economy. It is also a reluctance by small business people to employ or to grow their business to employ more people.

The superannuation collection process contributes in a major way to the complexity. Employers need to be removed from the contribution process. The superannuation component of a person's pay should be included in tax and then sorted out by the owner of the funds (the individual taxpayer), the ATO and whatever superannuation fund that taxpayer selects.

Remove employers from the collection process

We are proposing that superannuation no longer be collected and distributed by employers. This then resolves many issues around fines, payment for collection and engagement of the workers.

We are proposing that superannuation guarantee contributions would be included in the pay of an individual and collected as taxes as part of PAYG processes.

The superannuation component of the tax deductions would then be extracted from the PAYG contributions by the ATO. The ATO would distribute the superannuation contributions to the relevant funds, based upon information from the tax payer. The tax rates would need to be adjusted as necessary.

Example

Currently a taxpayer/employee who receives a salary of \$100k will also receive another payment of \$9.5k which their employer sends to the nominated superfund.

The employer also sends PAYG deductions to the ATO on a regular basis. This tax would be around \$30k. So the employer sends off \$30k in separate processes that involve potentially 24 different actions during a year for that employee.

Under our proposal the taxpayer/employee would be paid a salary of \$109.5k. The employer would send off \$39.5k in PAYG payments to the ATO in potentially 12 different actions in a year.

The ATO would then make a payment to the superfund based on advice from the taxpayer that is included in their annual tax return.

Benefits/Savings

There will be a general increase in efficiency in the economy, as well as in the management of superannuation funds. This increase in efficiency will come mainly from saved time and expense for employers and for superannuation funds.

Some 800,000 employers would no longer have to complete paperwork for superfunds and employees and send money off to some various superannuation funds or to a clearing house.

There will be a decrease in non-compliance by employers (there will be zero non-compliance as they will not be involved in the system.) In 2010 some 20,000 small business people were fined for not completing the process according to law. This fine is unfair as the small business person is expected to take time that they would

probably rather spend with the family or on the business and complete, for no financial return, activity that provides a financial return for everybody else involved in the process.

There will be improved, streamlined communications and processes for super funds who will deal only with the ATO.

This approach creates savings for the user (taxpayer), superannuation funds and employers.

Taxpayers outside the tax system are more likely to be re-engaged as the ATO will need information to be able to forward payments to their fund of choice. The need to engage with the ATO would be more compelling for these people as ~10% of earnings would normally be a substantial amount of unclaimed funds.

The superfunds and employers would have the capacity to better plan and manage cash flow.

Employees would be aware of the full income they are receiving from their employers as their gross wages would now include the super component.

The employee would also be more engaged at least once a year in deciding what happens to their superannuation funds.

The employee would no longer be worried about whether the employer has remitted their funds. The employer would no longer be stressed about whether he or she has got it right.

The unions could save time and money as they no longer have to monitor employers.

In the case of bankruptcies and business failure the ATO normally has first call on any 'money due' and the demands of employees have a much lower priority. In this proposal the super guarantee component would have the same priority as the ATO, giving some surety in super payments.

There are no extra costs for employers, only savings and an ability to concentrate on business issues rather than the financial affairs of its employees.

There will be no losses or change for employees. The only difference would be the need to provide information on superannuation funds to the ATO rather than to each employer. Superfund management activities would become more streamlined and less complicated.

Employers would have some increased costs. The current situation where any earnings under \$450 a month do not accrue super contributions will be dropped and overtime will obviously be included in the overall income and the super component will be a percentage of that income. This difference could be counted for in any future CPI pay increases.

Superfund benefits

COSBOA is aware that many superfunds do not agree with this proposal as they do not want to be ‘too close’ to the ATO but would rather have a confusing situation continue which is somehow to their benefit. The industry superannuation funds also wish to maintain choice of funds within the workplace relations system and relevant awards and Enterprise Agreements. Yet there are savings to be made and those savings can be passed onto their members in the form of better returns.

Currently superfunds receive payments from any number of employers (at least tens of thousands in the case of the very large funds). If a payment is not received the superfund then needs to contact the employers, threaten the employers, contact members etc. When an employee changes employer there needs to be another flurry of activity to gather new information and even change funds depending upon industrial award provisions.

Under this proposal the superfunds would have one point of contact for contributions, the ATO. There is no need to track employees through employers.

There is likely to be a cost saving for super funds, even with any levy charged by the ATO for handling fees.

Given that at least every quarter there are 800,000 employers lodging information for 14 million employees to hundreds of superannuation funds the savings in administration and management would be in the billions of dollars. Funds that would be better invested on behalf of members.

Workforce benefits

Employees would know exactly how much they earn and where that money is going. They would know that the employer is no longer involved and does not need to be monitored. At least once a year they would be very engaged in making a decision about their superannuation.

This proposal takes superannuation out of the industrial system, where financial services and investments do not belong, and places it in the taxation system where monitoring and compliance would be easier to conduct and manage.

Government benefits

The government would benefit from easier administration. The ATO would only need deal with superfunds and not 800,000 of employers.

Any unclaimed funds are with the government.

Policy changes and process changes will be easier with the removal of the employer from the process.

Any increase in superannuation contributions become less confusing. An increase is easier to understand and manage as it would be in the PAYG.

We propose that any extra funding required by the ATO be through a levy on funds processed. Similar to what is the proposed in the current Stronger Super package. This is no different than how the funds themselves cover administration.

The Superannuation Clearing House

This proposal is a better option than a superannuation clearing house for small businesses. Any clearing house will still involve employers in the process. In whatever form a clearing house takes, employers will still need to keep records, make payments and deal with some person on super issues. This proposal removes employers from the process altogether.

Why are employers in the superannuation system with no return for effort?

COSBOA believes this proposal is achievable and will result in real savings. This proposal has come about from one of our members asking the question “Why are we involved in superannuation collection and advice on investments for our employees?” That is indeed a good question. Businesses, small business in particular, have enough to do with normal day to day activities without this unpaid work.

Superannuation funds are multi-billion dollar businesses and they distribute profits in the form of investment returns and share dividends as well as paying high salaries and bonuses to a large number of senior staff. Employers receive no fee for their activities. Acting as a collection agent for PAYG and BAS is one thing, but to also be forced to collect money, at no charge, for large private sector financial institutions seems to be unfair and certainly not in the spirit of the financial services industry.

The banks and financial institutions are quite happy charging small business for services yet under the super guarantee small business is expected to act as collection agents for the superannuation funds, without compensation.

Our proposal takes employers out of the superannuation equation and adds some sense and simplicity to the process.

Ends

COSBOA