Association of Independent Retirees (A.I.R.) Limited

ACN 102 164 385

The Association of Independent Retirees (A.I.R.) Limited is the national peak body representing partly and fully self-funded retirees.

A.I.R. work to advance and protect the interests and independent lifestyle of Australians in retirement and seek to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.

Proposal to remove the refunding of Imputation taxation Credits

We accept the need for the Government of the day to maintain a disciplined approach to economic management and we are mindful of the current fiscal position. Our members have a clear understanding of this and those issues that impact on our members capacity to have an independent and fulfilling retirement

Our advocacy has been active, strong and constant since the morning this proposed policy was announced by the federal Labor Party on 13th March 2018. We believe the media and Coalition are now all firmly against this proposal on removing the refunding of Imputation taxation Credits and yes more can be done in this area however I suggest that right now and up until the next federal election our priority will be the continuation of a direct campaign firmly focused on informing and influencing the Labor party leadership and their members of the parliament on the impact of their unjust, unreasonable and poorly considered policy proposal.

This Labor proposal fails to accept the impact of this proposal on current retirees needed income and the required level of capital that is needed for self-sufficiency and to generate the needed retirement income for possibly 30 years or more.

This policy proposal fails the test on self-sufficiency for retirees that was the aspiration of Paul Keating when he first introduced superannuation and we mustn't lose sight that the system is still many years off from being full mature with all workers having provided for their retirement income via superannuation employer and personal contributions all their working life.

The Labor party policy makers have to be shifted and influenced by their own party members to modify their beliefs away from what has been said by Chris Bowen of

> *Labor's reforms to excess dividend imputation credits will remove a fiscally unsustainable tax arrangement that is seeing billions of dollars in lost revenue, making it harder for the government to fund important services and return to surplus.*
>
> *Dividend imputation worked perfectly well between 1987 and 2000 when cash refunds weren't sent to people who didn't pay income tax. Labor will return to that system.*
>
> *While I understand not everyone will like it, it is necessary and Labor is prepared to be honest about our plans in advance of an election and not surprise people afterwards. Budgets are about priorities. And to get the budget back to surplus difficult decisions need to be made. And yes, making the public case to take something off someone can be difficult, but federal Labor believes that the policy case for reforming refundability and excess imputation credits is a strong one, that it's absolutely the right thing to do.*

We have said that we'll consult with the Australian Taxation Office, Treasury and tax experts on the implementation of this policy. However, we have no plans to make changes to the announced policy.

Our advocacy activity needs to remain focused on the fact that the great majority of those who will be impacted are those who are or are about to self-fund their retirement and many of those investors outside superannuation will be impacted. Our members are not the "Rich" and "wealthy" individuals as Labor are inferring in their case to support their proposal.

Labor fail to recognise that this proposal, if implemented will financially impact self-funded retirees who are above the assets test for a Centrelink pension but below the $1.6 million balance in Super above which 15% tax is now payable on income. This proposal will not affect the 'rich' or 'wealthy' that Bill Shorten claims to be targeting.

The impact of this, should it begin in July 2019, will be felt by many thousands of self-funded retirees who have already suffered loss of part Centrelink pensions due to recent changes introduced to the Age Pension upper qualifying limit and the taper rate by the Liberal Coalition Government. With this:

Worse off if you have less than $1.6m in Super

This policy will create a strange anomaly where those above the Centrelink pension assets test but below the $1.6 million in Super **will lose up to 30% of their annual retirement income**. Those above the $1.6 million will lose no more than 15% and will be able to rearrange their portfolio to effectively lose nothing.

Worse off if just over the Assets test threshold

There is also another major anomaly with this proposal. Those people who are just above the assets test who do not get a Centrelink pension will lose their tax refund while those just below the assets test cut off who get a small Centrelink pension will keep their tax refund. It has been shown that this could mean a difference of $5,000 p.a. less income.

Only Targets Retirees with Self-managed Super and/or Personal Shareholders – it should be noted that this policy will mainly affect those retirees with shares in their own name or with shares in self-managed super. It will not affect those invested in large Government, pooled industry or commercial funds. This is a targeted attack on individual retirees and those with self-managed super.

An Example of the impact of this policy is shown by a couple who have just retired and are self-funding their retirement from assets of $900,000 supporting an income stream. Depending on their portfolio they could now lose $7,000 to $15,000 per annum, each and every year, from their income. This very significant loss will be compounded if this couple need to draw down more from their capital to maintain their retirement income. The capital reduction would then result in less income returns and a cycle of further capital reduction and further reduced income. Eventually they will end up drawing on the aged pension.

Are the claimed savings valid? - Many media analysts have questioned Mr Shorten's figures. He claims that this measure will save about $5 billion per annum and that some people are getting refunds of over $50,000. But media reports state that his figures are out of date and do not consider the recent introduction of the 15% tax on income from super balances over $1.6 million. Also, the amount claimed to be saved will 'evaporate' over a few years as investment advisors devise ways to 'get around' the policy. For example - This measure will be avoidable by those with Super in large industry or commercial funds. As reported in the Financial Review, the large managers with 'pooled' funds will offset the dividend credits against other taxable income. Others are suggesting Retirees will bring their children into their self-managed Super Fund so they can utilise the Imputation Credits. It is noted that the recent Coalition Budget May 2018 introduced changes whereby self-managed Super Funds will be able to have more members.

How will this affect Self-Funded Retirees

Example 1

Self-Managed Super Fund $300,000 – 'John' a single Retiree with a conservative Share Portfolio of ASX 200 dividend paying shares. (e.g. Banks, Telcos etc)

Share Value $300,000

Dividends per annum $10,300

Dividend Imputation Credit $4,025

Amount of Annual Income lost to the Fund $4,025

Weekly loss $77.40

Example 2

Self-Managed Super Fund $600,000 – 'Ross and Karen' a couple retired with a conservative Share Portfolio of ASX 200 dividend paying shares. (e.g. Banks, Telcos, Mining etc)

Share Value $600,000

Dividends per annum $20,600

Dividend Imputation Credit $8,050

Amount of Annual Income lost to the Fund $8,050

Weekly loss $154.80

Example 3

Self-Managed Super Fund $600,000 plus shares in their own names $300,000 – 'Jim and Rose' a couple retired with a conservative Share Portfolio of ASX 200 dividend paying shares including some index funds. (e.g. Banks, Telcos, Infrastructure, Mining etc)

Share Value $900,000

Dividends per annum $30,900

Dividend Imputation Credit $12,075

Amount of Annual Income lost to Jim and Rose $12,075

Weekly loss $232.21

We will continue to use all of the above in supporting our activities of directly advocating on a face to face meetings basis on this with all local to members of Parliament by our members and branches across Australia.

The super Saturday by-elections in Perth (WA), Longman (Queensland), Braddon (Tasmania), Mayo (SA) and Fremantle (WA) on the 28th July 2018 also give us the chance to directly present our position on this to candidates standing for election and explaining the impact of this on our members with the proposal policy and with this we should take specifically action both direct and via the alliance in these electorates

This is yet another example of successive Federal Governments having committed to encourage and support those who self-fund their retirement, however, in practice we believe that both Labor and Coalition Governments have consistently failed to adequately support those in the retirement / drawdown pension phase by restricting benefits or not providing the support to which they have committed.

There are now approximately 1.9 million Australians aged 65 years and over who are retired and either in part or fully self-fund their retirement. The greater majority of these are not "wealthy" individuals as many seem to infer and ongoing financial impacts on their set income stream generating assets from this proposal may result in their not being able to maintain their independence from Government support in the later years of their retirement.

A.I.R. remains committed to a view that any change to superannuation, welfare and pension arrangements must not disadvantage current retirees and those soon to retire. Future changes must include grandfathering and transitionary provisions to protect those retirees whose retirement income is based on the current rules.

The ability of self-funded retirees to continue to contribute to the economy and to maintain their living standard and necessary retirement income stream depends on a vibrant Australian economy that provides a real interest rate return to investors and embraces a strong, confident business sector with reliable returns.

A.I.R.'s ultimate goal is to continue advocating for the adoption of a truly holistic approach from all party's to bring about greater efficiencies from the superannuation system especially for those in this retirement income pension phase. This will need to ensure in the process of change that this specific group is protected from unintended consequences of change.

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