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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

SUPERANNUATION LAWS AMENDMENT (ABOLITION OF SURCHARGE)
BILL 2005

EXPLANATORY MEMORANDUM

(Circulated by authority of the
Treasurer, the Hon Peter Costello MP)

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Glossary

The following abbreviations and acronyms are used throughout this explanatory memorandum.

<i>Abbreviation</i>	<i>Definition</i>
ATO	Australian Taxation Office
Commissioner	Commissioner of Taxation
CSS	Commonwealth Superannuation Scheme
CSS Board	Commonwealth Superannuation Scheme Board

General outline and financial impact

Abolition of surcharge

This Bill abolishes the surcharge payable on individuals' surchargeable contributions and relevant termination payments, with effect from 1 July 2005.

Assessments of superannuation contributions and termination payments surcharge will not be issued in respect of surchargeable contributions or termination payments made or received in the 2005-06 or later financial years.

Assessments of surcharge relating to surchargeable contributions or termination payments made or received in the 2004-05 or previous financial years will continue to be issued and payable. Where a surcharge debt account has been kept for a member, this account will remain payable and continue to accrue interest debits as appropriate.

As a result, the surcharge legislation is not being repealed. The legislation is still required to remain in force to allow the Commissioner of Taxation to continue to issue assessments for the 2004-05 or previous financial years and to collect outstanding surcharge liabilities, including debts that remain within surcharge debt accounts.

This Bill boosts the superannuation savings of affected individuals, provides incentives for individuals to make additional voluntary savings through the superannuation system and simplifies the operation of the superannuation system.

Date of effect: 1 July 2005.

Proposal announced: This measure was announced in the 2005-06 Budget and was also outlined in the Treasurer's Press Release No. 041 of 10 May 2005, *Abolishing the superannuation surcharge*.

Financial impact: This measure is expected to result in a cost to revenue of \$650 million in 2006-07, \$875 million in 2007-08, and \$990 million in 2008-09.

Compliance cost impact: Nil.

Summary of regulation impact statement

Impact:

In the medium term there may be some benefits to superannuation providers through a reduction in reporting requirements and workflows associated with processing assessments. There are also expected to be some savings for taxpayers who may have previously sought financial advice about the superannuation surcharge and its implications for their retirement savings.

Main points:

- Superannuation providers will still be required to report, as they currently do, for the 2004-05 or earlier financial years and process assessments received from the Australian Taxation Office for these years.
- There will be no difference in the debt account requirements faced by superannuation providers who are required to maintain a debt account for a member, that is, unfunded defined benefit schemes.
- Whilst superannuation providers will no longer be required to report (for surcharge purposes) for the 2005-06 or later financial years, much of this reporting is still required for the Government superannuation co-contribution scheme.
- A lower number of assessments (including amended assessments) will be required to be processed by superannuation providers. This will start to occur in the 2006-07 and later financial years.
- It is expected that there would be a reduction in the demand from taxpayers seeking financial advice about the superannuation surcharge and its implications for their retirement savings.

Chapter 1

Abolition of surcharge

Outline of chapter

1.1 Part 1 of Schedule 1 to this Bill amends the *Superannuation Contributions Tax (Assessment and Collection) Act 1997*, the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997* and the *Termination Payments Tax (Assessment and Collection) Act 1997* to abolish the superannuation contributions and termination payments surcharges for surchargeable contributions and termination payments made or received in the 2005-06 or later financial years.

Context of amendments

1.2 Currently, the superannuation contributions surcharge is payable on an individual's surchargeable contributions where their adjusted income is above a specified amount.

1.3 The termination payments surcharge is also payable on part of certain employment-related termination payments that are not rolled over into a superannuation fund.

1.4 The Government announced in the 2005-06 Budget that it will abolish the surcharge payable on individuals' surchargeable contributions and relevant termination payments, with effect from 1 July 2005.

Summary of new law

1.5 The surcharge will cease to apply to periods after the end of the 2004-05 financial year. As a result the surcharge will not apply in the 2005-06 or later financial years.

Comparison of key features of new law and current law

<i>New law</i>	<i>Current law</i>
The financial years to which the superannuation contributions surcharge applies will be limited to financial years that end before 1 July 2005.	Superannuation contributions surcharge is payable on a member's surchargeable contributions for the financial year that began on 1 July 1996 or a later financial year.
A termination payment to which the termination payments surcharge applies will be limited to payments made before 1 July 2005.	Termination payments surcharge is payable on certain termination payments made to or for a taxpayer after 7.30 pm by legal time in the Australian Capital Territory on 20 August 1996.

Detailed explanation of new law

1.6 Subsection 7(1) of the *Superannuation Contributions (Assessment and Collection) Act 1997* and subsection 8(1) of the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997* will be amended so that the superannuation contributions surcharge will only be payable on surchargeable contributions made by or on behalf of a member in a financial year that began on 1 July 1996 or a later financial year that ends before 1 July 2005. *[Schedule 1, Part 1, items 1 and 2]*

1.7 Paragraph 7(2)(a) of the *Termination Payments Tax (Assessment and Collection) Act 1997* will be amended so that the termination payments surcharge will only be payable on certain termination payments made to or for a taxpayer after 7.30 pm by legal time in the Australian Capital Territory on 20 August 1996 and before 1 July 2005. *[Schedule 1, Part 1, item 3]*

Chapter 2

Consequential amendments

Outline of chapter

2.1 Part 2 of Schedule 1 to this Bill amends provisions consequential to the abolition of the superannuation surcharge. These include provisions in relation to the maximum amount of surcharge payable by members that are no longer necessary for the 2005-06 and later financial years. Other amendments remove reporting requirements relating to the 2005-06 and later financial years that are no longer necessary, and requirements for the Commissioner of Taxation (Commissioner) to make surcharge assessments and index relevant amounts for the 2005-06 and later financial years.

Context of amendments

2.2 Currently, the superannuation contributions surcharge is payable on individuals' surchargeable contributions where their adjusted income is above a specified amount.

2.3 The termination payments surcharge is also payable on part of certain employment-related termination payments that are not rolled over into a superannuation fund.

2.4 The Government announced in the 2005-06 Budget that it will abolish the surcharge payable on individuals' surchargeable contributions and relevant termination payments, with effect from 1 July 2005.

2.5 Assessments of surcharge relating to surchargeable contributions or termination payments made or received in the 2005-06 or later financial years will no longer be made. However, the legislation is still required to remain in force to allow the Commissioner to continue to issue assessments for the 2004-05 or previous financial years and continue to collect outstanding surcharge liabilities, including debts that remain within surcharge debt accounts.

Summary of new law

2.6 Maximum surcharge rates will no longer be necessary for the 2005-06 and later financial years. With the abolition of the surcharge from 1 July 2005, it is necessary to adjust the limit on the surcharge liability of members of constitutionally protected funds, or the reduction in benefits of members of certain unfunded defined benefits superannuation schemes, to exclude employer benefits accruing in the 2005-06 and later financial years from the calculation.

2.7 There is no longer any need for the Commissioner to publish certain indexed amounts or determine self-assessing superannuation providers for the 2005-06 and later financial years.

2.8 There is no longer any need for superannuation providers (including self-assessing superannuation providers) to give statements to the Commissioner or other superannuation providers for surcharge purposes, or for members to be required to provide information to the Commissioner for surcharge purposes, in relation to the 2005-06 and later financial years.

2.9 The Commissioner will only be required to calculate and issue assessments of surcharge for the financial years that end before 1 July 2005.

Comparison of key features of new law and current law

<i>New law</i>	<i>Current law</i>
Notes outlining that surcharge will not be payable for the financial year that began on 1 July 2005 or a later financial year will be inserted.	Surcharge that is payable is imposed by the <i>Superannuation Contributions Tax Imposition Act 1997</i> , the <i>Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Imposition Act 1997</i> and the <i>Termination Payments Tax Imposition Act 1997</i> .
There will be no maximum surcharge rate for the 2005-06 and later financial years.	The maximum surcharge rates are 12.5 per cent for 2004-05 and 10 per cent for 2005-06 and later financial years.

<i>New law</i>	<i>Current law</i>
The limits that apply in relation to the surcharge liability of members of constitutionally protected funds and the reduction of benefits of members of certain unfunded defined benefits superannuation schemes will exclude employer benefits accruing in the 2005-06 and later financial years.	A limit applies in relation to the surcharge liability of members of constitutionally protected funds and the reduction of benefits of members of certain unfunded defined benefits superannuation schemes. The limit reflects the existing maximum surcharge rates.
There will be no lower and higher income amounts for the 2005-06 and later financial years.	The lower and higher income amounts used to calculate the relevant surcharge rate are specified and indexed.
The Commissioner is not required to publish indexable amounts for the 2005-06 and later financial years.	The Commissioner is required to calculate and publish certain indexable amounts for each financial year.
The Commissioner will only be required to make assessments where there are surchargeable contributions or termination payments for an individual for a financial year that ends before 1 July 2005.	For each financial year for which there are surchargeable contributions or termination payments for an individual, the Commissioner must make an assessment to determine whether any surcharge is payable.
Superannuation providers will no longer be required to give statements (and other information as necessary) for surcharge purposes to the Commissioner, other superannuation providers and members in relation to the 2005-06 and later financial years.	Superannuation providers are required to give statements (and other information as necessary) for surcharge purposes to the Commissioner, other superannuation providers and members for the purposes of the assessment and collection of the surcharge.
Members will only be required to provide information to the Commissioner as to the holder of their surchargeable contributions for financial years that end before 1 July 2005.	Members may be required to provide information to the Commissioner as to the holder of their surchargeable contributions.

Detailed explanation of new law

Notes regarding the abolition of surcharge

2.10 Surcharge will not be payable for the financial year that began on 1 July 2005 or a later financial year. Notes to that effect will be inserted at the end of section 4 in each of the *Superannuation Contributions Tax Imposition Act 1997*, the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Imposition Act 1997* and the *Termination Payments Tax Imposition Act 1997*. [Schedule 1, Part 2, items 16, 32 and 42]

Maximum surcharge percentages

2.11 The superannuation contributions surcharge is determined under the *Superannuation Contributions Tax Imposition Act 1997* in relation to surchargeable contributions other than contributions to constitutionally protected funds. Superannuation contributions surcharge in relation to contributions to constitutionally protected funds is determined under the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Imposition Act 1997*. The termination payments surcharge is determined under the *Termination Payments Tax Imposition Act 1997*.

2.12 Subsection 5(1AA) of the *Superannuation Contributions Tax Imposition Act 1997*, subsection 5(1A) of the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Imposition Act 1997* and subsection 5(1AA) of the *Termination Payments Tax Imposition Act 1997* provide definitions of 'maximum surcharge percentage'. Under these definitions, the maximum surcharge percentage is 12.5 per cent for the 2004-05 financial year and 10 per cent for 2005-06 and later financial years.

2.13 As a result of the abolition of the surcharge there will no longer be a need for maximum surcharge rates to apply to the 2005-06 and later financial years. [Schedule 1, Part 2, items 19, 20, 35, 36, 45 and 46]

Benefit reduction limits

2.14 The *Defence Force Retirement and Death Benefits Act 1973* generally provides for the payment of retirement benefits to certain defence force employees. The payment of the surcharge liability in respect of such employees' superannuation contributions is deferred until a benefit is paid. When a benefit becomes payable the trustee of the fund is liable to pay the deferred surcharge liability plus accumulated interest.

2.15 Under the *Defence Force Retirement and Death Benefits Act 1973*, the trustee may not reduce the benefits of a member by more than the amount of the employer financed component of the benefits that accrued after 7.30 pm by legal time in the Australian Capital Territory on 20 August 1996, as determined by the trustee in accordance with subsection 6C(3). Paragraph 6C(3)(d) of the *Defence Force Retirement and Death Benefits Act 1973* will be repealed to reflect that, consistent with the abolition of the surcharge for the 2005-06 and later financial years, there is no longer a need for a benefit reduction limit for the 2005-06 and later financial years. [Schedule 1, Part 2, item 4]

2.16 The *Parliamentary Contributory Superannuation Act 1948* provides for an occupational superannuation scheme for Members of the Australian Parliament who were Members before the general election of 9 October 2004. The payment of the surcharge liability in respect of surchargeable contributions of those Members is deferred until a benefit is paid. When a benefit becomes payable the Parliamentary Retiring Allowances Trust is liable to pay the deferred surcharge liability plus accumulated interest.

2.17 Under the *Parliamentary Contributory Superannuation Act 1948*, the Parliamentary Retiring Allowances Trust may not reduce the benefits of a Member by more than the amount of the employer financed component of the benefits that accrued after 7.30 pm by legal time in the Australian Capital Territory on 20 August 1996, as determined by the Trust in accordance with subsection 4E(3). Paragraph 4E(3)(d) of the *Parliamentary Contributory Superannuation Act 1948* will be repealed to reflect that, consistent with the abolition of the surcharge for the 2005-06 and later financial years, there is no longer a need for a benefit reduction limit for the 2005-06 and later financial years. [Schedule 1, Part 2, item 5]

2.18 The *Superannuation Act 1976* provides for an occupational superannuation scheme, known as the Commonwealth Superannuation Scheme (CSS), for people employed by the Australian Government and for certain other people. The payment of the surcharge liability in respect of CSS members' surchargeable contributions is deferred until a benefit is paid. When a benefit becomes payable, the Commonwealth Superannuation Scheme Board (CSS Board) is liable to pay the deferred surcharge liability plus accumulated interest.

2.19 Under the *Superannuation Act 1976*, the CSS Board may not reduce the benefits of a member by more than the amount of the employer financed component of the benefits that accrued after 7.30 pm by legal time in the Australian Capital Territory on 20 August 1996, as determined by the Board in accordance with subsection 80A(3). Paragraph 80A(3)(d) of the *Superannuation Act 1976* will be repealed to reflect that, consistent

with the abolition of the surcharge for the 2005-06 and later financial years, there is no longer a need for a benefit reduction limit for the 2005-06 and later financial years. *[Schedule 1, Part 2, item 6]*

2.20 The *Superannuation Contributions Tax (Application to the Commonwealth – Reduction of Benefits) Act 1997* allows trustees of certain unfunded defined benefits superannuation schemes to reduce the benefits payable to members of such funds by no more than an amount of the employer financed component of that part of the benefits payable to the member that accrued after 7.30 pm by legal time in the Australian Capital Territory on 20 August 1996, as determined under subsection 4(2A). Paragraph 4(2A)(d) of the *Superannuation Contributions Tax (Application to the Commonwealth – Reduction of Benefits) Act 1997* will be repealed to reflect that, consistent with the abolition of the surcharge for the 2005-06 and later financial years, there is no longer a need for a benefit reduction limit for the 2005-06 and later financial years. *[Schedule 1, Part 2, item 7]*

2.21 The *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997* imposes the superannuation contributions surcharge on certain members of constitutionally protected funds. Surcharge assessed each year for each surchargeable constitutionally protected fund member, plus interest, accumulates in a ‘surcharge debt account’ maintained by the Commissioner.

2.22 Under subsections 15(6), 15(6AA) and 15(6A) of the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997*, when a benefit becomes payable to a constitutionally protected fund member or when a constitutionally protected fund ceases to be a constitutionally protected fund, the constitutionally protected fund member is liable to pay the surcharge. Subsection 15(6AA) applies where a superannuation interest in a constitutionally protected fund has been split and later becomes payable. Constitutionally protected fund members’ surcharge liability is the lesser of the amount by which their surcharge debt account is in debit or the value of the employer-financed component of that part of the benefits payable to the member that accrued after 7.30 pm by legal time in the Australian Capital Territory on 20 August 1996, as determined under either paragraph 15(6)(b), paragraph 15(6AA)(d) or paragraph 15(6A)(b), as relevant.

2.23 Consistent with the abolition of the surcharge for the 2005-06 and later financial years, there is no longer a need for a benefit reduction limit for the 2005-06 and later financial years. [*Schedule 1, Part 2, items 29 to 31*]

Income amounts and indexation

2.24 Currently, the maximum surcharge rates phase in between a lower income amount and a higher income amount. These amounts are specified in the *Superannuation Contributions Tax Imposition Act 1997*, the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Imposition Act 1997* and the *Termination Payments Tax Imposition Act 1997*.

2.25 As a result of the abolition of the surcharge there will no longer be a need to retain these income amounts for the 2005-06 and later financial years. [*Schedule 1, Part 2, items 17, 18, 33, 34, 43 and 44*]

2.26 The Commissioner is required to index certain amounts that are used in calculations of surcharge (including the lower and higher income amounts). As a result of the abolition of the surcharge, indexation will no longer be needed for the 2005-06 and later financial years.

2.27 There will consequently no longer be a need for the Commissioner to publish the indexable amounts for the 2005-06 and later financial years pursuant to subsections 7(6) and (7) of the *Superannuation Contributions Tax Imposition Act 1997* and the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Imposition Act 1997*, subsection 9(7) of the *Superannuation Contributions Tax Imposition Act 1997*, subsection 10(7) of the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997*, subsections 6(6) and (7) of the *Termination Payments Tax Imposition Act 1997*, and subsection 10(7) of the *Termination Payments Tax (Assessment and Collection) Act 1997*. [*Schedule 1, Part 2, items 9, 21, 22, 24, 37, 38, 40, 47 and 48*]

Assessments and information gathering

2.28 Assessments of surcharge relating to surchargeable contributions or termination payments made or received in the 2005-06 and later financial years will no longer be made.

2.29 As a result, subsections 15(1) of the *Superannuation Contributions Tax Imposition Act 1997*, subsection 14(1) of the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997* and subsection 11(1) of the *Termination Payments Tax (Assessment and Collection) Act 1997* will be amended so that the Commissioner must only make assessments where there are surchargeable contributions or termination payments made or received by or for an individual for a financial year that ends before 1 July 2005. *[Schedule 1, Part 2, items 13, 28 and 41]*

2.30 Consistent with these amendments, the simplified outlines of the *Superannuation Contributions (Assessment and Collection) Act 1997* and the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997* (in paragraph 6(a) for both Acts) and the *Termination Payments Tax (Assessment and Collection) Act 1997* (at section 6) will be amended to reflect that the Commissioner will only calculate surcharge for a financial year that ends before 1 July 2005. *[Schedule 1, Part 2, items 8, 23 and 39]*

2.31 As a result of the abolition of the surcharge for the 2005-06 and later financial years, superannuation providers (including self-assessing superannuation providers) will no longer be required to give statements (and other information as necessary) for surcharge purposes to the Commissioner, other superannuation providers and members in relation to the 2005-06 and later financial years. However it should be noted that superannuation providers will still have to report much of this information to the Commissioner for the purposes of the Government superannuation co-contribution scheme.

2.32 Subsections 13(2) to (4), 13(4A) and 15B(1) of the *Superannuation Contributions (Assessment and Collection) Act 1997* and subsections 12(2) and (3) of the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997* will be amended to limit the reporting requirements under these provisions to financial years that end before 1 July 2005. *[Schedule 1, Part 2, items 10, 11, 15, 25 and 26]*

2.33 Subsection 12(6) of the *Superannuation Contributions Tax (Members of Constitutionally Protected Superannuation Funds) Assessment and Collection Act 1997* will be amended to limit the reporting requirements to the Commissioner under this provision, to only those members who were potentially surchargeable. *[Schedule 1, Part 2, item 27]*

2.34 Paragraph 14A(1)(a) of the *Superannuation Contributions (Assessment and Collection) Act 1997* will also be amended to limit the

requirement on members needing to provide information to the Commissioner as to the holder of the member's surchargeable contributions to those contributions relating to a financial year that ends before 1 July 2005. *[Schedule 1, Part 2, item 12]*

2.35 As a result of the changes to reporting requirements, the Commissioner will also not need to determine self-assessing superannuation providers for the 2005-06 and later financial years. As a result subsection 15A(2) of the *Superannuation Contributions (Assessment and Collection) Act 1997* will be amended to limit its application to financial years that end before 1 July 2005. *[Schedule 1, Part 2, item 14]*

Chapter 3

Regulation impact statement

Policy objective

3.1 The objectives are to boost the superannuation savings of affected individuals, provide incentives for individuals to make additional voluntary savings through the superannuation system and simplify the operation of the superannuation system.

Implementation options

3.2 Assessments of superannuation contributions and termination payments surcharge will no longer be made in respect of surchargeable contributions or termination payments made or received in the 2005-06 or later financial years.

3.3 However, assessments of surcharge relating to surchargeable contributions or termination payments made or received in the 2004-05 or earlier financial years will continue to be issued and payable.

3.4 Where a surcharge debt account has been maintained for a member, this account will remain payable and continue to accrue interest debits as appropriate.

3.5 There was no other practical implementation option to give effect to the Government's policy objectives.

3.6 The alternative of ceasing all activity in relation to the contribution and termination payments surcharges from a specified date could lead to inequitable outcomes as individuals' liability would be dependent on their own, or their fund's, timeliness and accuracy of providing relevant information. For example, individuals who had outstanding surcharge liabilities on that date would no longer need to pay their debt to the Commonwealth.

Assessment of impacts

Impact group identification

3.7 There are approximately 600,000 taxpayers who will no longer be surchargeable on contributions and termination payments made or received from 1 July 2005.

3.8 There are over 300,000 superannuation providers, and the Australian Taxation Office (ATO), which will continue to be affected by surcharge assessment and collection activity for contributions and termination payments made or received before 1 July 2005.

3.9 Under 100 unfunded defined benefit and constitutionally protected funds, and the ATO, will also have an ongoing obligation in respect of current members in those funds until those members are paid out.

Analysis of costs/benefits

Compliance and administration impacts — superannuation providers and the ATO

3.10 Superannuation providers will continue to give statements (and other information as necessary) to the ATO, other superannuation providers and members in relation to surchargeable contributions or termination payments made or received in the 2004-05 or earlier financial years.

3.11 Superannuation providers will continue to process assessments (including amended assessments) received from the ATO in relation to surchargeable contributions or termination payments made or received in the 2004-05 or earlier financial years.

3.12 It should also be noted that there is no limit on the timeframes in which superannuation providers are able to vary information previously provided to the ATO. Combined with the fact that taxpayers can amend their own personal income tax assessments (and therefore affect adjusted taxable income for surcharge purposes) amended assessments may continue to be issued by the ATO and be processed (and paid or credited) by superannuation providers and members alike.

3.13 There will be no difference in the requirements faced by superannuation providers who are required to maintain a debt account for a member (ie unfunded defined benefit schemes). This also applies to the ATO, which must maintain debt accounts for constitutionally protected

funds. All existing debt account actions will be required to be continued by affected providers and the ATO until all affected members' benefits become payable.

3.14 Superannuation providers will no longer be required to give statements (and other information as necessary) for surcharge purposes to the ATO, other superannuation providers and members in relation to surchargeable contributions or termination payments made or received in the 2005-06 or later financial years. However this will not result in much, if any, change in compliance and administration burden, as much of the information will still be required to be given for the purposes of the Government superannuation co-contribution scheme (co-contribution).

3.15 For instance, the ATO will still require up to 16.5 million member contribution statements (minus some information that was only necessary for surcharge purposes) from all superannuation providers that have received contributed amounts. Furthermore, superannuation providers will still be required to provide each other with the relevant information when transferring members.

3.16 It is unclear therefore whether there will be any savings for superannuation providers or the ATO as a result of the abovementioned changes to the reporting requirements for surcharge purposes. The process of matching income details of individual taxpayers (up to 15 million records) against member contribution statements, will continue for co-contribution purposes.

3.17 Since assessments of superannuation contributions surcharge that apply to surchargeable contributions made or received in the 2005-06 or later financial years will no longer be issued by the ATO to superannuation providers, it is expected there will be a lower number of assessments (including amended assessments) for the ATO and superannuation providers to process in the 2006-07 and later financial years.

3.18 While it is anticipated assessments for the 2004-05 or earlier financial years will continue to be issued at least until the 2008-09 financial year, the volume of these assessments should fall off progressively. In this respect it should be noted that the current legislative arrangements mean that reviews of amended assessments resulting in variations can be completed up to eight years after the relevant year for surcharge purposes.

3.19 There are not expected to be any additional costs for any group affected by the abolition of the surcharge associated with adjusting existing surcharge payment or reporting systems. This is because most superannuation providers will continue to use these same systems to report to the ATO, receive co-contributions from the ATO, repay to the ATO co-contributions unable to be credited to a member's account or repay to the ATO co-contribution overpayments.

3.20 In conclusion, there are not expected to be any additional costs for any group affected and potentially some benefits in the medium term associated with processing fewer assessments, associated workflows and some reduction in reporting requirements.

3.21 The level of compliance and administration benefits that may be potentially realised are not able to be quantified because of the uncertainty of the magnitude of benefits that may eventually be realised, as well as uncertainty in relation to the timing of assessments (and associated workflows) actually ceasing to be significant.

Compliance impacts — superannuation members/taxpayers

3.22 It has been said that the superannuation surcharge was complex and difficult for taxpayers to understand. As a result of its abolition for the 2005-06 or later financial years, it is expected that there would be a reduction in the demand from taxpayers seeking financial advice about the superannuation surcharge and its implications for their retirement savings.

Economic, social and revenue impacts

3.23 Superannuation fund members who may have been affected by the surcharge in future years will have their superannuation and/or retirement savings boosted as a result of the abolition of the surcharge.

3.24 By removing the surcharge, with no corresponding increase in any other superannuation taxes, the concessionality of the superannuation system for affected higher income earners has been increased. This is expected to provide incentives for individuals to make additional voluntary savings through the superannuation system.

3.25 This measure is expected to result in a cost to revenue of \$650 million in 2006-07, \$875 million in 2007-08, and \$990 million in 2008-09.

Consultation

3.26 No consultation on this measure has occurred. The measure was announced in the 2005-06 Budget and there has been a very short timeframe in which to develop the Bill for introduction.

Conclusion and recommended option

3.27 In the short term there are not expected to be any savings for the ATO or superannuation providers, nor any additional costs for those affected.

3.28 In the medium term there are potentially some compliance and administration benefits that may be realised from fewer assessments, associated workflows and some reduction in reporting requirements. There may also be some benefits to taxpayers as a result of less complexity in the superannuation system.

3.29 It is anticipated there will be increased superannuation savings for those who would have been impacted by the surcharge.

3.30 The only alternative to the implementation option chosen would result in inequitable outcomes for individuals with similar circumstances.

3.31 As a result the implementation option described in this statement is the only available practical option to implement the policy objective.

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Schedule 1: Amendments

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