

This submission proposes to correct an imbalance in parity when comparing two groups of similarly placed couples approaching retirement age.

The first group has had the resources to establish a Self Managed Superannuation Fund in which shares and property have typically been invested in to provide income in retirement.

The second group, not having the resources to set up a SMSF but recognising the need to provide for their retirement have started a self contributory superannuation possibly through a life insurance company who invests their contributions in a share based fund. After a few years of contributing, due to the vagaries of the stock market all of their contributions were forfeited through market movements. This results in the couple taking matters into their own hands and they decide to invest in bricks and mortar by buying an income producing residential property with the aim of paying off the mortgage on this property by the time they reach retirement age after which the rental collected would be used to fully fund or supplement retirement income. It is important to recognise that all income generated by this property would be taxed at the couple's full marginal taxation rate whereas the couple having the SMSF would benefit from the Government's favourable taxation rates including exemption from CGT liability, this being the Government's intentional policy of concessional taxation arrangements with the aim of encouraging people to save for their retirement. This policy due to the circumstances excludes the second group.

This obvious disparity when comparing the two groups needs to be reviewed to provide a more level playing field where the sole intent of both groups is to invest to provide income for themselves when fully retired.

In order to level the playing field when comparing the two groups some form of dispensation needs to be offered to the second group of retirees where a specific effort has been made to fully or partially fund retirement income by investing in income producing assets to provide for their retirement. A cap of 15% tax on income generated by these assets during the ages of 55 to 65 would be a fairer outcome with this rate being reduced to zero once reaching the official retirement age which currently stands at 65.

Where assets have to be sold to pay for emergencies such as house or vehicle repairs and in particular to fund accommodation bonds for nursing home admittance, the second group of retirees would face the spectre of full Capital Gains Tax liability to be paid on the sale of assets whereas the first group of retirees would be exempt from this requirement. A fairer interpretation would be to quarantine those years where the asset has provided income for the second group after having reached the official retirement age, currently set at 65 where these years are excluded from in the CGT calculation. As an example, say that an investment property were bought 15 years ago at a cost of \$100,000 and is now valued at \$400,000, a capital gain of \$300,000. As per the existing arrangement this amount is halved for taxation assessment purposes and assuming that the couple had retired 10 years ago a factor of 5 divided by 15 would be applied to the amount of \$150,000, i.e. \$50,000 or a taxable income of \$25,000 for each couple member and this would be taxed at the couple's individual marginal rate (hopefully capped at 15%). This more lenient approach would have the result of retaining a greater amount of asset value which could result in excluding the couple from qualifying for Centrelink pension benefit or at least reduce the amount of benefit entitlement.

